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May 28, 1943

MEMORANDUM FOR THE SECRETARY'S FILES:

The Secretary and I met Mr. Doughton and Senator George this morning at 9:30, in Mr. Doughton's Ways and Means room in the Capitol. The discussion in this conference was entirely directed to future legislation and nothing was said on the subject of the pending bill, except with relation to the need of secrecy of our conference because if reporters heard about the conference they would think we were discussing the question of veto. Senator George made this point.

The Secretary started out by saying he wanted to talk frankly and directly to Doughton and George as leaders of the two committees; that he was very concerned about the inflation picture, which was no longer a threat, but a present reality, and that he had the responsibility in the public mind (whatever might be the fact in the Government) for revenue legislation which would curb inflation. He therefore thought that it would be necessary for him and his staff to make more speeches than in the past and let the public know his attitude.

The conference then had a long detour in discussion of a point raised by Doughton that the trouble was that too high salaries or wages were being paid to a lot of war workers. The Secretary said that he was not responsible for this subject and that we were facing a condition which required drastic remedy. Doughton insisted that we were being asked to cure a disease that we had not caused, and insisted that one should go to the basic cause of high wages. The Secretary said that the President had frozen wages on the Little Steel formula and that he could do nothing more at this end of the picture.

This conference had brought up the subject of the individual excess profits tax as a method of taking away

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from recipients the unduly high wages which were being paid. The Secretary seemed to support such a tax. I interrupted to say that there were a good many difficulties about the tax and the conversation veered off to other points. Later, returning from the Hill, the Secretary said that he had no intended to endorse this tax but he also said that he had never been able to see why one could not be worked out.

George said he hoped the Secretary would make no speeches until next Tuesday. The Secretary said he would not, but he was thinking of the longer-run picture. The Secretary suggested he was not so much interested in this conference in "how" as he was in "when" there would be legislation.

It was then suggested by Doughton that no successful legislation could be accomplished without agreement among the leadership in the House, the principal members of the Ways and Means and Finance Committees, and even the Republicans, because the Republicans were so politically minded and the Democrats could not be held together. This led to the suggestion by the Secretary that a meeting be held in his office which would be attended by such other persons, additional to George and Doughton, they might select. The meeting was scheduled for 9:00 next Thursday morning. It was agreed that we would submit several alternate plans for raising revenue.

Senator George took a more favorable attitude toward additional revenue than did Congressman Doughton. He said it would be easier in the Senate to raise additional revenue than in the House. He seemed prepared to desert some of his previous commitments in view of new conditions on the inflation front. He said, however, that raising revenue would be much easier if there was agreement on means. We had some conversation as to the amount - he thinking the Budget called for \$15 billion after the pay-as-you-go bill, and I pointing out that that bill increased revenue \$3 billion. I showed Senator George a copy of the press release issued today. The Secretary reiterated his claim for \$16 billion additional revenue. He talked,

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however, in terms of monthly expenditures and in terms of 50% financing of the war by taxes - the term "taxes" not including refundable taxes.

At the end of the conference, I pointed out the necessity of legislation in respect to Customs overtime pay, and George and Doughton agreed to see Mr. Lynch on this problem. Doughton said he would introduce a bill which we had prepared.

After our return to the office the Secretary sent me a copy of a press notice with respect to a statement by Doughton in favor of a sales tax, copy of which is attached hereto.

A handwritten signature in cursive script, appearing to be 'HSD', is centered on the page below the text.

May 28, 1943
10:26 a.m.

-V-

- TAXES

WASHN - A P - CHAIRMAN DOUGHTON -D-NC- OF HOUSE WAYS AND MEANS COMMITTEE LONG-TIME FOE OF A FEDERAL RETAIL SALES TAX SAID TODAY HE MIGHT FAVOR SUCH A TAX -AS A LAST RESORT - TO HELP FINANCE THE WAR

-I AM SPEAKING FOR NO OTHER MEMBER OF THE COMMITTEE - HE SAID - BUT FOR MYSELF I BELIEVE THAT A SALES TAX SHOULD BE ADOPTED ONLY IF AT ALL AFTER ALL OTHER REASONABLE MEANS OF TAXATION HAVE BEEN EXHAUSTED-

DOUGHTON EXPRESSED THIS VIEW AS CAPITOL HILL BEGAN SPECULATING ON HOW TO RAISE 16 000 000 000 DLS ADDITIONAL IN TAXES AND COMPULSORY SAVINGS AS RECOMMENDED BY PRESIDENT ROOSEVELT

WAYS AND MEANS COMMITTEE WILL START WORK ON A NEW GENERAL TAX BILL -AS SOON AS PRACTICABLE - HE SAID AFTER PAY-AS-YOU-GO LEGISLATION IS DISPOSED OF - A HOUSE-SENATE CONFERENCE COMMITTEE YESTERDAY COMPLETED DETAILS OF A COMPROMISE MEASURE AND THE TWO BODIES WILL VOTE ON IT NEXT WEEK

DOUGHTON SAID HE PERSONALLY WAS WILLING - TO DO EVERYTHING REASONABLE - TO FIND NEW REVENUE

-BUT- HE ADDED -I DO NOT LIKE TO SHOOT AT A SPECIFIC MARK LIKE 16 000 000 000 DLS - I DON-T WANT TO WRECK OUR ECONOMIC STRUCTURE IN AN EFFORT TO GET ANY SPECIFIED AMOUNT OF TAXES

CHAIRMAN SAID HE BELIEVED IT WILL BE LATE THIS YEAR BEFORE ANY NEW TAX LEGISLATION CAN BE COMPLETED

-V-

Copied 5/29/43

May 28, 1943
10:47 A. M.

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HMJr: Hello.

Operator: Mr. Pearson.

HMJr: Okay.

Operator: Go ahead.

HMJr: Hello.

Drew
Pearson: Mr. Secretary?

HMJr: In person.

P: How are you?

HMJr: Fine.

P: Say, I've been rooting for you on this Rum1
plan, as you may know....

HMJr: Yeah.

P:and I just hope to hell you talk up the
Chief at the White House a little bit to fight
it.

HMJr: (Laughs) I see.

P: I - I think - I think the country's with you
on it.

HMJr: Yeah.

P: I think you'll have a marvelous campaign issue.

HMJr: Yeah. Well, I can't make any comment.

P: Well, now, you know, some of your friends -- and
I think I'm one of them....

HMJr: Yeah.

P:and I'm not - I'm not a critical friend
either, though I don't object to being frank.

HMJr: Yeah.

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P: Some of these - some - some people think you kind of run from a fight, and....

HMJr: My God! I've got a long record the other way.

P: Well, I think - I think, on the whole, you have a - a long record the other way, but sometimes on these Congressional fights, I think you kind of - shun - shun them a little bit.

HMJr: Yeah.

P: And I'd hate - I think - I think you can put up a marvelous fight on this.

HMJr: No, we've got a lot of czars around town now, Drew.

P: Well, that's true. (Laughs) I suppose we've got a lot of czars.

HMJr: Yeah.

P: But you're - you're more important than those czars.

HMJr: Well, I'm glad that you think so.

P: Well, I'm damn sure of it.

HMJr: But, anyway, it's - well, I - I - I'm just not - I'm - I'm glad you called; glad to listen; but I can't say anything.

P: (Laughs) You can't?

HMJr: No.

P: In other words, you don't think you'll do any barking.

HMJr: No, I'm - I'm not saying anything, one way or the other.

P: All right.

HMJr: But I appreciate your call.

P: All right. Okay.

HMJr: I hope to see you soon.

P: Thank you.

HMJr: Goodbye.

May 28, 1943
11:45 a.m.

FINANCING

- | | |
|-------------------|---------------|
| Present: Mr. Bell | Mr. Engelsman |
| Mr. Graves | Mr. Capek |
| Mr. Gamble | Mr. Callahan |
| Mr. Buffington | Mr. Waldman |
| Mr. Odegard | Mr. Coyne |
| Mr. Fred Smith | Mr. Spriggs |
| Mr. Houghteling | Mr. Duffus |
| Mr. Tickton | Mr. Pulte |
| Miss Elliott | Mr. Hirzel |
| Mr. Shead | Mr. Hobbs |
| Mr. Lane | Mr. Prenosil |
| Mr. Partain | Mr. Reagh |
| Mr. Anderson | Mr. Fisher |
| Mr. Olney | |

H.M.JR: I just wanted to talk to you people about the War Finance Committee and say this, that we have been through a lot of arguing, and struggle, and so forth, and so on, and we finally have come to an arrangement with the Federal Reserve Banks, which, I take it, you are familiar with.

Has everybody seen the release and had it explained to them?

(Affirmative response.)

H.M.JR: Now, in doing that, coming to this decision, I have to lean very, very heavily on the people who are here in this room. After all, the job of raising the money for the United Nations isn't any child's play; it is a tough job. And Graves, Elliott, Odegard, and Gamble, Buffington here - and the rest of them - and I more or less gambled whatever reputation I have accumulated during the past ten years that we can put this thing across.

- 2 -

You fellows - and ladies - have to be just better than you have been in the past, and I am not going to accept any excuses. Anybody who falls down on the job - you can only fall down on it once. I mean, I am going to use the same rule they use for the general in Africa - one failure and you are out from now on. I am not going to accept any because I have staked everything on this thing. Anybody can make an error - I make them every day - but stupidity is something else, or disloyalty to the Treasury is something else.

Either the people here believe in what we have to do and in this method of doing it - if they don't, I hope they will be man enough to get out.

Now, we are going up to New York - a group of us - to set up the organization in New York and New Jersey and then go on to Chicago and do the same so we will have a sample. From then on some other people will carry the ball for me. I want to be kept more informed for the next - certainly from now until the Third War Loan is over I want to be much closer in touch the way I was at the beginning when I used to give it a great deal of my time. I not only want to know what is going on, I want to know what is cooking. I don't want to be told, "Well, this is in the works and you can't change it." If I don't like it, it is going to be changed. The argument - well, I have been told so often the thing is in the works and it can't be changed. You have plenty of notice to bring it to the top side before it is too late, and I will have plenty of time so it can be brought up.

Now, as I say, I am counting on you people - the key people in this organization - to see us through this thing. So far everybody who I have talked to, whether in Washington or in the field, has offered me their cooperation. It is a little rough talk, but I feel kind of rough because I have taken on this huge responsibility; and if it goes wrong, it is my fault. If it goes well, it is big enough that everybody can get a piece of the thank you. I mean, it is big enough for everybody.

Now I wish you would all - anybody can ask me anything they want that has to do with war finance.

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MR. CALLAHAN: Mr. Secretary, when will we get the date for the next campaign?

H.M.JR: You make me think of Mr. Bell. He has been pushing me very hard on this thing, because there is some other drive - Community Chest, I guess. Where is Bell?

MR. ODEGARD: October.

H.M.JR: It looks now like it will be right after Labor Day, but it certainly won't be before that.

MR. CALLAHAN: When will we find out the date?

H.M.JR: I would say between now and the 5th of June. I promised that to Bell, that between now and the 5th of June you will know the date.

MR. CALLAHAN: We will have the general plans for the campaign at that time so that everybody can go to work the next three months?

H.M.JR: We won't be able to give you the basket, if that is what you mean.

MR. CALLAHAN: That is what I meant.

H.M.JR: No, I can't give you the basket.

MR. LANE: We could go ahead and plan a slogan and copy and set up ads. We can later throw the basket into--

H.M.JR: Sure. I don't think - the basket part - I mean, it so happens - now, this is something that they ought to know, and I don't suppose - Lindow and Tickton ought to keep these people - one of our worries - it is a pleasant worry - is we have too strong a Government bond market, and we are having trouble holding it down. I think that these people ought to know something about the Government bond market. I hope we won't have to draw their attention to the fact that we have a weak one, but right now the issues that we sold in the Second War Loan are selling too high. Why we worry is because we will have

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to price the other one relatively - I mean, say, either drop the interest or increase the amount of years, and it gets us out further on the limb. So, if something goes wrong, it is easier for them to drop.

But I think that these people ought to get a little feel of the Government bond market, and they ought to - it is a nice thing to know that what we have just sold - we have the pleasant worry that it has gone too high. I mean, it is a pleasant worry, but I think there should be the counterpart of this over in - I am using the words advisedly - the War Finance building. We will use that name. They ought to have the counterpart of this.

I think it would be very easy for Tickton and Lindow to give them just a couple of charts on how - on three or four bonds - how they go, so they would have a little feel about it.

(Mr. Bell entered the conference.)

H.M.JR: I hope there will be some new, fresh ideas. I like this one I heard about at Poughkeepsie where they did so well - the newspaper and the radio - buying a bond for every soldier - and I think we could - like the one that the Washington Post ran, the ball game - I think some of the things like that seem awfully good. I hope there will be more of them.

Does anybody else have anything?

MISS ELLIOTT: I was thinking - we were planning some meetings with women, either six regional meetings, or some individual spot meetings in strategic States, and are working on the dates of that this morning. I wanted to have the six regional women in to help plan this.

If that drive is coming right after Labor Day and we run those meetings in July, that would give just a month for these women to get - that is a little late, isn't it, if the drive is coming? I wanted to emphasize individual selling and new plans for that in these meetings.

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H.M.JR: Dan, they asked me the question about when the drive was coming. I said that you had been putting that to me and I promised you that between now and the 5th of June I would give you the answer.

MR. BELL: You are not talking about the drive in July?

MISS ELLIOTT: No, no, what I wanted was to have these meetings all over the country well in advance of that so as to get them--

MR. BELL: We have made the statement that the drive would not come earlier than September. That has been made public, so you have at least until September.

H.M.JR: Chances are it will come right after Labor Day.

MR. ANDERSON: Mr. Morgenthau, I am hoping it will be at least a week after Labor Day in order that the schools might have a chance to organize and get into this drive. I think they can get into this drive very significantly. I know in some communities they practically spearhead this drive - the smaller communities.

MISS ELLIOTT: It would be a mistake to put it too early in September, because that is the time when they are busier with the details and opening of schools, and so forth, than any other time in the year. For them it would be better a little bit later.

MR. BELL: I think it is important also that everybody get back from their vacations and the Labor Day week end.

MR. ANDERSON: I think it would be better a little later.

MR. BELL: Monday the 13th is a better date.

H.M.JR: When do the schools open?

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MR. ANDERSON: They usually start the Monday after Labor Day - the Tuesday after Labor Day, I mean.

MR. ODEGARD: The major problem there, I think, Mr. Secretary, may be this overlapping of the Community Fund drive, which begins sometime, I think, the first of August - October - the latter part of September.

H.M.JR: They are waiting for us to fix the date so they can fix theirs. The date is going to be fixed. They are not going to be simultaneous.

One thing I want to caution you about is, in this new setup our attitude is that we haven't won over the Federal Reserve, and they haven't won over us. So please don't do any crowing - if you feel like crowing, you see - and only a few remarks - the papers had it Mr. Eccles had won over me, which is perfect. That suits me, and that is all right. But please don't do any crowing or boasting because it has been a difficult and a very, very delicate thing, and the Federal Reserve is trying their best now not to have any unfavorable publicity.

The various bank presidents have all telegraphed in that they want to help. We want to use their help. So if any of you feel a little boastful, don't boast about this, please. I mean, let's do our boasting after the Third War Loan is over. That will be time enough.

MR. DUFFUS: Mr. Secretary, there is one thing that would be of great help to us on the next War Loan plan, and that is the use of captured equipment which our own forces have captured in Guadalcanal and Africa. So far we have only fifteen pieces of equipment that we got from the British, and we have--

H.M.JR: Well, Mr. Fred Smith has an arrangement - he was invited over to the office of the Under Secretary of War, and they told him that anything they have is ours. There is an entirely new setup over there, so if you will talk to Fred Smith - General Greenbaum, who is the executive assistant to Mr. Patterson, told him that anything we want we can have from now on. Is that right, Fred?

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MR. SMITH: That is right.

H.M.JR: So unless you want the Pentagon Building - (Laughter) I think they would give you about anything else. But they have told us that, and they are very anxious to work with us. They feel that we - if you haven't heard it, it is a very nice compliment - are doing a much better job than they are, and they want to get a free ride with us on anything that we are doing. So they have said that their files, their equipment, or anything that they have is available to us, because they want War Bonds to carry them along. So I think you will find that they will let you have anything you want within reason.

MR. DUFFUS: I hope they tell General Surles that.

H.M.JR: Well, this is over General Surles; this is right out of Mr. Patterson's office. General Greenbaum has sort of taken it on. We really haven't had anything to go to them about, so he has talked with Smith. This is over Surles. Isn't that right?

MR. SMITH: Yes. It is right with Greenbaum.

MR. HOUGHTELING: We got started in the labor field rather late. I am not conscious of having missed any tricks as the information came to me, but we got our letters from Green and Murray out sponsoring special "Buy a Bomber campaigns." But the difficulty of getting our stuff out from the Chicago office and so forth, resulted that most of the labor unions got their material along about the 26th or 27th of April, and they are just going into production now in a big way.

I mean, it is all worth while, but the next time we have to get started a little earlier.

H.M.JR: You (Bell) weren't here when I told these gentlemen that from now on people who make willful mistakes will have only one opportunity to make such a mistake. I can't deal with those kinds of people any more, so if somebody falls down on something like that and it is just stupidity - I made that statement - he is out. I mean,

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I haven't the time. I have taken too great a responsibility. So when people are stupid or willful about it, we will just have to drop them by the wayside. I added the word "disloyal."

There are three things I can't deal with: I can't deal with disloyalty, stupidity, or willful mistakes.

MR. COYNE: There is quite a good deal of feeling, Mr. Secretary, in the farm States that the next drive should be pushed ahead a little bit into the fall if possible in order to get the crop market--

H.M.JR: You had better get together with your education there.

MR. COYNE: That would be entirely in line with education, because he wants it pushed ahead also. States like Iowa and Alabama have been very vigorous in urging that we see if we couldn't push it into October or even November.

H.M.JR: You mean push later?

MR. COYNE: Yes, later.

H.M.JR: I thought you meant earlier.

MR. HOUGHTELING: In general, Mr. Secretary, your report, with its emphasis on the individual, has been very well received by the labor people. They like that.

H.M.JR: Good.

MR. HOUGHTELING: That emphasis on the part of the individual members of the American public.

H.M.JR: Do you want to say something, Bell?

MR. BELL: No.

H.M.JR: Graves?

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MR. GRAVES: No.

H.M.JR: Gamble?

MR. GAMBLE: No.

H.M.JR: If there is nothing else - we are all in this boat, sink or swim, and we are not going to sink.

May 28, 1943
1:12 p.m.

HMJr: Hello.

Byrnes'
Secretary: Hello, Mr. Secretary. Justice Byrnes - there you are, sir.

James
Byrnes: Hello.

HMJr: Hello, Jimmy.

B: Henry, I owe you an apology....

HMJr: Yeah.

B:and I just declare that I've been so darn busy with things that developed, and I've been over on the other side of the White House, so that I didn't get a chance. When I....

HMJr: Well, I see the....

B:tried to get you I couldn't reach you.

HMJr: I see the announcement on the ticker....

B: That's the explanation.

HMJr:and....

B: And you could understand it.

HMJr: I can understand it. I was going up on the Hill, which I did, to see George and Doughton, and I wanted to have a talk with you before, but now that you've got all these new duties I guess you won't be....

B: Well, I can....

HMJr:on it.

B: Oh, I'd be - no, I'd be glad to - if I can be of any help to you, to do it. I have not talked to either of those gentlemen since the....

HMJr: Yeah.

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B:the report, but....

HMJr: Well, Doughton was down, I understood, and Cooper to see you Monday.

B: Yeah, I - I'd be - I said since the report, but I'd be glad to tell you just what had happened before while you were away there. I saw them Monday.

HMJr: Yeah.

B: That was before the - the conference report..

HMJr: Yeah.

B: And they were divided in their view, and I told them that - what - just exactly what the President had told me, which was - told me to tell them that he would sign the bill that provided forgiveness of 50%.

HMJr: Yeah.

B: As a matter of fact, he had told me that he would sign a bill higher.

HMJr: Yeah.

B: This is just for your information.

HMJr: Yeah.

B: You were - I wish I could have gotten you then, because I told him - I said, "Well, now I think, Mr. President, you ought to get the Secretary," and you were in New York.

HMJr: Yeah.

B: And he said he knew that your wife was sick....

HMJr: Yeah.

B:and that you were considerably worried about her....

HMJr: Yeah.

B:and that - he - he went on and he told me -- I can tell you right now so - of course, that's your baby.....

HMJr: Yeah.

B:he said, "I've made up my mind that from the standpoint of the - of the Government that this thing, whether it's right or wrong, that they have sold it to the people."

HMJr: Yeah.

B: And he said, "When it comes to figures that I always...." - using his language - he said, "I always have a rule of thumb, and I'd - I don't see any difference if - if I agree to what Cooper and Doughton would agree to of 50% and the other fellows were 75%, I'd split the difference."

HMJr: Yeah.

B: I said, "Well, I - I wouldn't, Mr. President, and I - with your permission I'm going to take some liberties and I have in mind what you said, but those boys want to get a bill so bad that if I ever told them that they'd go higher."

HMJr: Yeah.

B: So when I talked with them I told them - I put down in shorthand what I told them so that I'd have a record.....

HMJr: Yeah.

B:and I told them that I had expressed no opinion but I had transmitted to the President Mr. Doughton's request, which request was: "I am confronted with this situation ..." - which he outlined - and they couldn't get a bill, and if they - and there couldn't be any withholding levy, that he had investigated that, and the question was whether they would say that the Administration was incompetent and couldn't legislate, or, on the other hand, that he'd have to agree to a horizontal cut, and that he

(Cont'd.)

- 4 -

B: thought that they might get a compromise about
(Cont'd.) 70%.

HMJr: Yeah.

B: I said the President's answer is that - reluctantly, that he would in the interest of legislation and to help get a withholding levy change and surrender the principle for which he had contended and which he had outlined in his letter, the letter that Paul wrote.

HMJr: Yeah.

B: "He says that if you and Cooper are satisfied, that you would agree to 50%, that he'll sign that bill."

HMJr: Yeah.

B: "And I told him that if he was going to sign it that - that he couldn't issue a statement then criticizing you fellows who were his soldiers, and that he would have to permit me to say to you that he - when he signed it that he'd say that he signed it only because he'd been assured by the chairmen of the respective committees and the Democratic conferees that it was the best thing that he could get or whatever he wanted to say, but that he wouldn't blast the fellows who voted for it...."

HMJr: Yeah.

B: "...if he was going to do it himself."

HMJr: Yeah.

B: And I never did tell them that he would sign the bill - approve the bill over the 50%.

HMJr: Yeah.

B: I told Cooper - Cooper said that he would not - was not in favor of agreeing to anything over 50%, but Doughton wanted to agree up in the 70's.

- 5 -

HMJr: Yeah.

B: He was impressed terribly with the necessity of getting a bill and had no hope of getting anything for the rest of the year.

HMJr: Yeah.

B: He was really jittery about it.

HMJr: Yeah.

B: He said that after all the responsibility was his next to the President - that - and he was jittery.

HMJr: Yeah.

B: But I - I finally told him - I said, "Now - I - you gentlemen asked to see me, and I want no misunderstanding; that the President doesn't commit himself to do anything except if you gentlemen, you Democrats, in the Senate and House agree to 50%, he'll approve it." I said, "If you - if you do anything more, all I can tell you is I'll transmit your statement. I'm merely messenger boy to him. But I think it would be utterly useless for you to transmit anything more than about 60." Randolph Paul had said last Saturday afternoon....

HMJr: Yeah.

B:that he talked to Cooper and that Cooper might agree to 60, but that he did not - that he wanted to ask Paul what the Treasury wanted and Paul told him not to.

HMJr: Well....

B: And, therefore, having that in mind and knowing that, I just left it that way then.

HMJr: Yeah.

B: Bob telephoned me again (laughs) and he wanted me to see the President, and I said, "No, Bob, I will not. It's not fair. As the President has got Churchill and these people here, his

(Cont'd.)

- 6 -

B: (Cont'd.) mind is not on it; he can't think about it; that you gentlemen will have to do it. You'll - he has made a statement and I wouldn't take it - take any other proposal to him." I had no idea he would go up to the 70 on it, and I was just - when the President had that - when I - he had no inkling at all, so I sat down when - just as soon as I read in the - or heard over the radio that they'd agreed to it, and I sent the President a letter, a copy of - a memorandum, a copy of which I'll give you....

HMJr: Yeah.

B:in which I told him that there was - he had no commitment of any kind....

HMJr: Yeah.

B:except as to the 50%, which I've now described to you.

HMJr: Yeah, I'd like to see the letter.

B: Yeah, and he was free to do - it was a memorandum....

HMJr: Yeah.

B:and he was free to do anything that he could....

HMJr: Yeah.

B:that - that he wanted. I - it simply contains what I have now told you....

HMJr: Yeah.

B:that these gentlemen came and that - though notwithstanding the fact that he had indicated that he would approve up to 62, splitting the difference....

HMJr: Yeah.

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B:what he called "the rule of thumb", that I had just taken the liberty of not telling him that, and therefore he was footloose and they couldn't say that he had agreed to 62....

HMJr: Yeah.

B:when he had 75.

HMJr: Yeah.

B: But I can tell you now, Henry....

HMJr: Yeah.

B:that when I saw him yesterday on an entirely different matter, on this thing that he has done....

HMJr: Yeah, yeah.

B:he had - he had talked to Rayburn at a dinner here for this Liberian President....

HMJr: Yeah.

B:and Rayburn had told him that he ought to sign this bill.

HMJr: He ought to sign it?

B: Yes.

HMJr: Yeah.

B: And he - that is his view.

HMJr: Well, he - I saw the President....

B: Did you see him?

HMJr: I saw the President at noon yesterday.

B: Fine. How did he talk to you?

HMJr: He - he told me he was going to sign it.

- 8 -

B: Well, he - when he - I told him that he could - he was free to do anything....

HMJr: Yeah.

B:repeating what I've told you, that he could veto it or that - that no commitment has been made. He was footloose, but he said, "I want to sign it."

HMJr: Yeah.

B: And that Sam Rayburn had talked to him and that he felt that he was right, and he went on to tell me the statements and - I haven't mentioned it to anybody since.

HMJr: Yeah.

B: Because I just didn't get - haven't been free, with all the ants on me, to talk to you about it. But he told me - he said, "Well, I - I want to sign it," and I - I didn't say one thing or the other. I told him that - that was....

HMJr: Well....

B:a matter for the Treasury to tell him about it....

HMJr: Yes, well....

B:and you - you - I didn't know what your recommendation would be, so I - I never said a damn thing to him.

HMJr: Well, he didn't give me a chance to make a recommendation....

B: He didn't give me any. (Laughs) He just - he....

HMJr:and....

B:interrupted me, and he said, "Well, I want to sign it."

HMJr: I....

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- B: He's convinced that....
- HMJr: I sort of felt we've been on the outside on all of this the last week or so.
- B: Well, he - he - I don't know who they - who in the - I don't think anybody did. I - I take that back. I - from the way he looked when he interrupted me, I wanted to tell him that he was free to veto it, you know, and I told him what I've now told you, and I said, "You can veto it; you can let it become law and make a statement; or you are free to do anything. There's no commitment by anything I've said, and you're - you're free." But he said, "I want to sign it."
- HMJr: Of course, it makes our position very difficult. We have to go through the heartbreaking jobs for months on the tax bill, and then when it gets down to this stage, neither I nor my people know what's going on, and....
- B: Paul - Paul gave me a lot of information about what he knew - just....
- HMJr: Yeah.
- B: But I never - I never talked to a fellow up there unless he came to talk to me.
- HMJr: Yeah, but you....
- B: You know Doughton wanted to....
- HMJr: Yeah, but you....
- B:Doughton wanted to put it right in the President's lap.
- HMJr: Yeah, but you remember I asked if any of them came down I would have liked to have been there, and I....
- B: Well, but - I know but....
- HMJr:I was - I was here Tuesday morning.

- 10 -

B: Well, I - I don't know when they - what day they were here.

HMJr: Yeah.

B: Well, they - those fellows asked me....

HMJr: Yeah.

B:the - oh, I've forgotten what day, and....

HMJr: Well, you'll be on other things now and your mind....

B: Yes.

HMJr:won't be on tax bills.

B: No, I declare, I'm glad you are back to take that, and....

HMJr: And....

B:he - he - he - Doughton is a bad man to talk to about taxes.

HMJr: Well, you're telling me! I've been doing it for nine years....

B: (Laughs)

HMJr:and I - I've had three General Counsels, and at the end of each tax bill they've always had to go to bed.

B: I - I....

HMJr: It's a heartbreaking business....

B: I - it's a heartbreaking business....

HMJr: There's no thanks in it for anybody....

B: No, sir.

HMJr:and the President's never really interested.

B: I found - I - I was acting merely as a messenger boy.

- 11 -

HMJr: Yeah - I mean he's never interested, and then, as I say, it's - it's hard to keep one's relations with the Hill straight.

B: Very difficult.

HMJr: And we had, up to recently, built up a very fine relationship with Doughton and with George, and if we're going to go on with another bill....

B: Yeah.

HMJr:it's - it's hard enough. But there's no thanks - it's the un.- it's one of the most unpopular jobs in town.

B: Yes.

HMJr: And it's hard enough.

B: Yeah, he told me this. I - I shouldn't - I shouldn't tell you -- I made a note of it at the time after he had left -- he - he never - I mean old Bob....

HMJr: Yeah.

B:on the - when he telephoned me on one occasion he did not - he wasn't quarreling with the Treasury....

HMJr: Yeah.

B:but he did say one thing that I wanted to tell you.

HMJr: Yeah.

B: He said the - that you had given out a statement which - he - he was complaining about his place. He said, "You don't know, James..." - he called me James - "You don't know, James, what a terrible time I've had. This is the worst experience I've ever had in my life."

HMJr: Yeah.

- 12 -

B: "It's driven me sick." He said, "Every man has got a different opinion," and he went on to tell me all of his trouble, and then he said, "The Secretary had given out a statement..." - about - I think it was about wanting another bill....

HMJr: Yeah.

B:but he said, "Right at that time..." - he said, "...if he had talked to me about it - or talked to George, but he gave out a statement which gave us a lot of trouble."

HMJr: Yeah.

B: So I'm - I'm just - I'm no carrier of tales - I'm....

HMJr: No, well....

B:but I just wanted to let you - so you can help straighten him out.

HMJr: No - well, he - he's straightened out, as far as I'm concerned....

B: Well, then that's....

HMJr:but I need the additional revenue and I need it desperately....

B: Of course, you do.

HMJr:and if we're going to do anything on this inflation job, we - we need - we need more revenue.

B: You need a lot of it.

HMJr: And I - I told him that today.

B: Well, I'm glad you did. He....

HMJr: And I'm going to - I told him also that I'm going to keep saying so publicly, and I served notice on him in a very friendly way - to George and Doughton that - that I've got to keep saying publicly we need more revenue.

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- B: Well, Doughton, in that - referring to this statement, he said, "I'm in favor..." - no, it was in connection that he said you wouldn't get a bill at all, and he said, "Then we won't have a chance for another bill." He said, "Those fellows won't start another bill, because they know darn well that just as soon as we start the Republicans are going to put the Ruml plan on it, and...."
- HMJr: Well....
- B: "...if the President's going to veto it, why then, what's the use of our spending six months of our lives. When we get to the end of the roll we're going to have the same fight and the same results." And he said, "They won't do it." But he said, "Personally, I differ with George and I'm ready to go to work on another bill."
- HMJr: Well....
- B: So that was a little encouraging.
- HMJr: Well, the President told me I could keep asking for this \$16 billion from now until....
- B: Yes.
- HMJr:the cows come home....
- B: (Laughs)
- HMJr:and he - he'll back me up.
- B: That's good.
- HMJr: And he also told me to tell them that if we didn't get it, it's going to be Congress's fault.
- B: Right.
- HMJr: But....
- B: It's got to be done, you know, and I had in mind -- to tell you the fact -- when I went over to - just to assure him because I didn't know but what some one of these fellows might ring him - some - Rayburn or Doughton or George and go - want to

(Cont'd.)

- 14 -

B: (Cont'd.) talk to him and he wouldn't know what I had told Doughton in response to Doughton's request for the President's statement as to his views, and when I went over there to tell him that and I said, "You can - you can either veto it or you can let the bill become law and then blast the life out of these fellows. Do - do just what you want." And I - I really thought that that's what he was going to do.

HMJr: Well, he told me that you gave him three alternatives.

B: Right. To sign, to veto....

HMJr: Or let it....

B:to - to leave - to have signed without it - his - to let it become law without his signature or to approve it.

HMJr: Yeah.

B: And I stated no view. I said, "Here's what you can do - the three...."

HMJr: Well, I - I....

B:which, of course, he would know.

HMJr:I'm going - I wish you luck in your new job.

B: But I - I'll give you this one, with having to fool - if I had your job....

HMJr: Yeah.

B:of having to fool with taxes....

HMJr: Yeah.

B:between that Hill....

HMJr: Yeah.

B:I'll be damned if I wouldn't get St. Elizabeth's to give me a room out there.

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HMJr: Well, I - well, I'll go - I've gone through it, and, as I say, each year about twice a year, it's, I think, the most trying job in town, and - and to keep one's ties straight so they feel that when I go up there I am talking for the President, you see, is terribly important.

B: Yes.

HMJr: And I'm glad Vinson's coming in, because we always got along very well with Vinson.

B: Oh, yeah, he's a nice fellow.

HMJr: And he - he being on Ways and Means, he knows this - this game.

B: Yeah, he'll be very helpful to you.

HMJr: Well....

B: He - he's a good boy, and you - I'll - I'll - I've told you exactly....

HMJr: Right.

B:what I've said to those fellows so that there was no wires crossed or anything....

HMJr: Well....

B:and I never did talk to George about the....

HMJr: Well....

B:because I - I knew from Bob's statement....

HMJr: Yeah.

B:unless I - I made up my mind, unless George asked me I wouldn't tell him.

HMJr: Yeah.

B: The only statement that I ever made to him was when he first asked me and that was a statement which was contained in the - in the letter written by Paul....

HMJr: I see.

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- B:which followed so - but so far as George is concerned, he never got any statement from the President.
- HMJr: Okay.
- B: And the only statement with Bob, who tried to - you know, he telephoned me that last day....
- HMJr: Yeah.
- B:and he said, "I want to know if you can't come up here and talk to these fellows." I said, "No, I cannot do it. I'd do anything in the world to help you, Bob, but I think it would be impossible for me to do it, and I can't do it."
- HMJr: Yeah.
- B: Well, he said, "I just thought you'd come here and meet Jere Cooper and me." I said, "No, I - I have nothing to say to you that - I couldn't help you. If - if I had any authority, any power, any duty in it, it would be different." But the old boy was just - his nerves had gone to pieces, you know.
- HMJr: Yeah.
- B: He was in - I know that he was in a terrible fix, and then when he couldn't - I wouldn't come, he telephoned me and wanted to know if I would see the President, and I told him I could not see the President....
- HMJr: Yeah.
- B:that the President had a luncheon and after that had a press conference, and I just meant to - I was not going to - I don't mind being helpful if I can be the messenger to get over, but I couldn't be running to the President. Furthermore, I knew, as you just said, the President didn't have time to think about taxes....
- HMJr: Yeah.
- B:and he - he hadn't made a study of the details of it....

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HMJr: No.

B:and if I transmitted some question there to him that Doughton wanted to give him, that it would - he might make an answer that was not wise, and that I just thought that he ought to be made to go through and take it up with Randolph Paul, who would know the darned answer, and Randolph could - could answer him.

HMJr: Yeah.

B: But Bob wanted to get to the President, you know. I - I could understand he wanted to say to him - to the conferees that "I got a message from the President"....

HMJr: Yeah.

B:and he got no statement from me except that I made a shorthand note of, and it's just as I told you so....

HMJr: All right.

B:that should help you in knowing what took place.

HMJr: All right. Thank you.

B: All right, Henry.

HMJr: Best of luck in your new job.

B: Thanks, Henry. Goodbye.

HMJr: All right.

May 28, 1943
2:35 p.m.

FOREIGN FUNDS (Ford Company)

Present: Mr. Paul
Mr. White
Mr. Pehle

H.M.JR: I talked with the President this morning, and he was amazed and highly interested in the Ford story. He said it was the most shocking story he ever read.

He said, "I think we will let the corpse cool off for about four weeks, then we ought to turn it over to the Truman Committee."

So if you would make a mental note to remind me, in about four weeks we will remind the President.

He said it was the darnedest thing he had ever read.

How did you get into those files?

MR. PEHLE: Part of this is recollection, but as I recall, we got a dispatch from the State Department in North Africa before we had gone into North Africa indicating that Ford was setting up a subsidiary in North Africa through France, and they were putting all collaborationists in as the head of it.

We wanted to see what Ford here knew about what their people in France were doing, so we sent Mr. Lawler out, who is now in the Coast Guard and a very competent fellow in the Legal Division. He got to Edsel Ford without any difficulty, and he went through their files on the French matter completely - personal files and otherwise.

- 2 -

H.M.JR: Now, can you do - I sent word to you - I don't know whether Paul told you - can you do something like that on General Motors or General Electric - anybody like that?

MR. PEHLE: We can. It is probably a big job.

MR. WHITE: You could with the National.

H.M.JR: I can give you one of them.

MR. WHITE: The banks are trying to open up branch banks - Chase National.

MR. PEHLE: You know about that indictment that happened while you were away - indictment of the Chase National Bank?

H.M.JR: Yes.

MR. PAUL: They haven't been indicted, and I am going to start to be suspicious of why there is no action.

H.M.JR: Who would take the action?

MR. PAUL: Justice up in New York.

H.M.JR: Who are you suspicious of now?

MR. PAUL: I am not suspicious of the Justice people down here who agreed with us, but I am a little afraid something may get stalled up in the New York office.

H.M.JR: They didn't obey these T.R. forms, wasn't that it?

MR. PEHLE: More than that. They didn't block accounts when they should have blocked them.

MR. PAUL: It was right at the beginning.

- 3 -

H.M.JR: Anyway, I thought you would like to know that the President was very much interested and had read it. That is about all. I thought it would please you to know that I made use of the thing.

MR. PAUL: Will you give us a little carte blanche to go ahead on General Motors?

H.M.JR: Sure. I asked for it in the memo. I even put it in writing.

MR. WHITE: We have to get a peg to hang it on.

MR. PEHLE: We can get a peg, I am sure.

MR. WHITE: We sent you a little note. We want to send a copy of that report of the manipulation of the French funds to our people in North Africa. Is that all right with you? We want to send it by air.

H.M.JR: Sure.

MR. PEHLE: And circulate it through various agencies?

H.M.JR: That is a different matter.

MR. PEHLE: I know, but if you send it by aerogram that automatically circulates it all over Washington.

MR. WHITE: Yes, but that is separate.

H.M.JR: You fellows decide what is right.

There is this French company, this chemical company - Solvay Process. Take a look at that.

MR. PEHLE: That is enormous.

MR. PAUL: That is Allied Chemical.

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H.M.JR: Also Eugene Meyer.

MR. PEHLE: It goes back to Allied Chemical
and Dye.

H.M.JR: Take a look at it.

May 28, 1943
3:10 P. M.

HMJr: I was talking with the President at one o'clock today and he said he had been talking with Churchill and that - how they increased the tax on liquor and cigarettes....

Randolph Paul: Yeah.

HMJr:and so forth.

P: Yeah.

HMJr: And he wishes that he - that we would take a fresh look at all those kind of things.

P: Well, we - we had that up last year, you know. I know all about the British on that. They pay about twenty-two dollars on a gallon.

HMJr: Yeah.

P:where we have six.

HMJr: Well, the President - this - this was his comment, if we increased the taxes on liquor and cigarettes, they're going to drink and smoke anyway and we get more revenue and maybe we can discourage the spending a little bit.

P: Yeah. Well, I'll have that in mind.

HMJr: Well, he put down that - and - and he said maybe we can discourage....

P: Yeah.

HMJr:spending.

P: Yeah.

HMJr: He's had that in mind several times, so...

P: Well, I - I'm fully in agreement on that, but - but we are - I just want to point out - we've had that in mind all along. We tried to get all we could last year.

- 2 -

HMJr: But he so seldom makes suggestions, I thought you'd like to hear about it.

P: Yeah. One other thing -- I've - we have - now have a draft of - of a possible message with the signing - with the signing or without the signing....

HMJr: Yeah.

P:I mean, just putting him on record.

HMJr: Yeah.

P: Would you like to get a copy of that sent to you somewhere?

HMJr: Yes.

P: We - it won't be - it'll be ready later this afternoon.....

HMJr: Well....

P:at one stage. I can send you a copy.

HMJr: I tell you what you do. Tell the Secret Service it's up to them one way or the other to get it to me at Customs House.

P: In New York?

HMJr: Well, I don't know - Chauncey'll know how that's done.

P: Well, anyway you want one sent to you.

HMJr: Yeah. Chauncey'll know.

P: Yeah. You see, we still have that problem -- it ought to mean that if this bill is signed, we - I certainly think the President ought to say something. It will strengthen our hand and this is written partly from the view of additional taxation.

HMJr: Well, Chauncey knows how to get me.

P: All right. I'll get the copy to her then.

HMJr: If you please.

P: All right.

HMJr: Good night.

MEMORANDUM

May 28, 1943.

TO: The Secretary JHS

FROM: Mr. Sullivan

SUBJECT: Conference re publicity on withholding tax.

PRESENT; Messrs. Cann, Mooney, George Schoeneman, Horne and Sullivan.

It was agreed that an immediate effort should be made to emphasize to all taxpayers their obligation to pay their June 15th income tax installment.

The publicity for the withholding tax falls into two categories:

1. Employees:
 - a. Instruction and information through the labor press;
 - b. Instruction through the general press;
 - c. Radio talks both from Washington and by all collectors and agents-in-charge;
 - d. Instructive posters for display in all places of work;
 - e. Distribution of "Instructions to Employers" to all labor unions to enable them to answer all inquiries from their membership.
2. Employers:
 - a. Direct instruction from collectors in the form of printed instructions to be mailed to all employers;
 - b. Informative stories in the general press;
 - c. Distribution of a sample filler which the employers can print and enclose in the first payroll check to explain to their employees just what has been withheld and why.

- 2 -

- d. Emphasis by collectors and agents-in-charge on the urgency of employers securing the exemption certificates from their employees immediately.

These exemption certificates will be distributed to all employers by the collectors. (More than one-half of the total amount of certificates have already been printed and distributed to collectors. None will be released until after the Act becomes law. Employers are being authorized to reproduce this certificate at their own expense if they so desire.)

The above outline is tentative and I expect to go over this with Mr. French. S M I N.

May 28, 1943.

MEMORANDUM TO MRS. MANUQH
MR. GAMBLE

Les Rouns just called me to say that he had talked to Allan Sproul and he didn't feel he would be equal to coming down town either on Saturday or Sunday. He is just getting out of the hospital today and the doctor feels he should stay in bed for a few days.

He suggests that if you want somebody to sit in on any of these meetings, Mr. William T. Treiber, Secretary and Assistant Counsel of the Bank, has worked on the Victory Fund and the War Finance Committees and is completely familiar with the organizational set up. If you want him, he should be called either today or the first thing in the morning so that he can make arrangements for over the week-end.

swB

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON-25

OFFICE OF THE CHAIRMAN

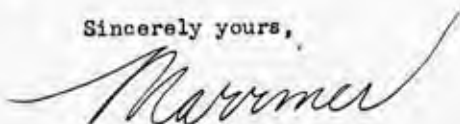
May 28, 1943.

Dear Henry:

This is to acknowledge your letter of May 26 in which, pursuant to my letter of May 22 and our subsequent conversations, you transmitted to me a copy of the transcript of the meeting of the presidents of the Federal Reserve Banks and myself with you and some members of your staff on Friday morning, May 14, and also the transcript of that portion of the afternoon meeting on that day up to the time when you and the members of your staff left the conference room. The remainder of the transcript, recording what was said during the rest of the afternoon meeting after your return to the conference room, is expunged.

This is in accordance with our understanding that this portion of the record would be destroyed, and I appreciate your furnishing me with the copy of the transcript as thus amended.

Sincerely yours,



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

May 26, 1943

Dear Harriner:

I am attaching copies of telegrams so far received from Federal Reserve presidents. I think they show very excellent spirit.

As you will see, I have not yet heard from all of the presidents, but hope to.

I think our announcement has been handled very well by the press by and large. Mr. Thurston was very helpful in getting the story ready for release.

Sincerely,

(Signed) Henry

Hon. Harriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

Enclosures. FRB - Dallas
 " - Kansas City
 " - Minneapolis
 " - St. Louis

Copies in Diary
(initialed cc to Smith)

By Manus 4:05 5/28/43

FS:cf

May 28, 1943

Dear Mr. Gilbert:

I want you to know that I appreciate your telegram which arrived this morning.

Your pledge of wholehearted support is gratifying. I had hoped for and expected your cooperation, because the advice and assistance which you can lend this program are needed. I am sure we will ask your help before we get very far along under the new arrangement.

Sincerely,

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

Mr. R. R. Gilbert,
President, Federal Reserve
Bank of Dallas,
Dallas, Texas.

File in Diary
(init.cc to Smith)

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SECRETARY OF THE TREASURY
OFFICE

10 5 1943 MAY 27 PM 1 31

MORGENTHAU

CHAIRMAN ECCLES OF THE BOARD OF GOVERNORS HAS JUST ADVISED ME BY TELEPHONE OF HIS MEETING WITH YOU YESTERDAY AND OF YOUR DECISION TO SET UP WITHIN EACH STATE A SINGLE ORGANIZATION TO ASSIST IN SELLING SECURITIES DURING PERIODIC DRIVES, OR WHENEVER NECESSARY. I HEREBY PLEDGE MY WHOLE-HEARTED SUPPORT TO YOU IN CONNECTION WITH YOUR WAR FINANCING PROGRAM AND TRUST YOU WILL CALL UPON ME AT ANY TIME IF YOU THINK I CAN RENDER SOME SERVICE TO THE TREASURY IN SETTING UP A SALES ORGANIZATION ALONG STATE LINES WITHIN EACH OF THE STATES IN THE ELEVENTH FEDERAL RESERVE DISTRICT. I SHALL BE GLAD TO GIVE THE ~~STATE~~ STATE ORGANIZATION SUCH INFORMATION, ADVICE, AND ASSISTANCE AS MAY BE DESIRED AND TO FULLY COOPERATE IN THE SALE OF SECURITIES IN THIS DISTRICT

R.R. GILBERT. *Dallas*
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May 26, 1943

Dear Mr. Leedy:

Your telegram which arrived this morning is very much appreciated.

I have no doubt that we will call upon you for help in getting our organization set up and running in your district.

Your valuable experience in the Second War Loan will be more than helpful — and, as you fully realize, we will need every available assistance if we are to continue to succeed in the vast financing project with which we are faced.

Sincerely,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

Mr. H. G. Leedy,
President, Federal Reserve Bank
of Kansas City,
Kansas City, Missouri.

File in Diary
(init. copy to Smith)

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W72G53WASH J22 KC 27-1029

HENRY MORGENTHAU JR

1943 MAY 27 AM 11 39

SEC OF TRSY

CHAIRMAN ECCLES HAS INFORMED ME OF HIS ~~MEETING~~ MEETING WITH YOU
 YESTERDAY AND THE DECISION WHICH HAS BEEN REACHED TO CREATE A
 SINGLE WAR FINANCING ORGANIZATION IN EACH STATE. I SHOULD LIKE YOU
 TO KNOW THAT I STAND READY TO ASSIST IN ANY WAY THAT I CAN IN
 GETTING THESE ORGANIZATIONS SET UP IN THIS FEDERAL RESERVE DISTRICT
 AND THAT I SHALL RENDER EVERY AID WITHIN MY POWER TO MAKE THEM
 THE MOST EFFECTIVE INSTRUMENTS POSSIBLE FOR THE TREMENDOUS
 TASKS WHICH THEY ARE TO UNDERTAKE. PLEASE CALL ON ME
 FOR ANYTHING YOU MAY FEEL THAT I CAN DO.

H. G. LEEDY PRESIDENT

FEDERAL RESERVE BANK OF KANSAS
CITY.

SECRETARY OF THE FEDERAL RESERVE
OFFICE

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May 26, 1943

Dear Mr. Payton:

I appreciate your assurance of complete cooperation under the arrangement which we are setting up for our war financing. I feel that we are taking another important step forward, and we can be assured of final success if all those who gained valuable experience in the Second War Loan will, as you have done, agree to give us a hand in our future financing.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. J. N. Payton,
President, Federal Reserve
Bank of Minneapolis,
Minneapolis, Minnesota.

File in Diary

(init. copy to Smith)

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W23G92WASH 124 MPLS 27-1144

MORGENTHAU

1943 MAY 27 PM 1 16

RE YOUR PRESS RELEASE JUST RECEIVED REGARDING FUTURE METHOD OF
HANDLING GOVERNMENT FINANCING WE ASSURE YOU OF OUR COMPLETE
COOPERATION AND AID IN YOUR PATRIOTIC EFFORTS

MAY 27 1943

J. N. PEYTON.

RECEIVED DEPT. OF THE TREASURY
OFFICE

Minneapolis

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May 26, 1943

Dear Mr. Hitt:

Your pledge of cooperation and support, I can assure you, is very greatly appreciated. You can be sure that we will call upon you for your valuable assistance.

If we are to continue to succeed in this tremendous financing job, we will need the help of everyone, especially those who have had experience such as yours.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. F. Guy Hitt,
First Vice President,
Federal Reserve Bank
of St. Louis,
St. Louis, Missouri.

File in Diary

(init. copy to Smith)

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1943 MAY 27 PM 12 43

STLOUIS MO MAY 27 1943 1100A

HONORABLE HENRY MORGENTHAU JR

SECRETARY OF THE TREASURY

I HAVE BEEN ADVISED OF THE MEETING AT THE TREASURY YESTERDAY
AND I WISH TO PLEDGE YOU MY FULL COOPERATION AND SUPPORT
IN FUTURE TREASURY FINANCING.

F GUY HITT FIRST VICE PRESIDENT FEDERAL RESERVE
BANK OF STLOUIS.

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May 28, 1943

Dear Harold:

I am glad you approve of the changes we are making in the bond selling organization. Since the close of the Second War Loan, we have given a lot of thought to the future, and I believe, as you do, that the arrangement we have all decided upon will answer most of our problems.

For your information, I am attaching a copy of the release which we sent out announcing this new arrangement. It was worked out by ourselves and the Federal Reserve Board so we can be sure that everyone all around is in agreement.

I think you know how much I appreciate the great help that the Council has given me, and it will make Ted Gamble's job much easier to know that the Council stands behind him. Your present plan to have Stuart Peabody direct Council operations with the Treasury, of course, meets with our complete approval. Mr. Peabody did a very excellent job for us while he was here, and I am sure that his aid will be invaluable as we proceed.

Finally, I want to thank you, personally, for your interest in the Treasury. You have already made some very real contributions, and it is gratifying to know that you will be standing by when we get ready to go into the next drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Harold E. Thomas,
170 Varick Street,
New York, New York.

Enclosure.

FS:cf

File in Diary

(init.cc to Smith)

Press release 5/27
re 2nd War Loan
enclosed.

HAROLD B. THOMAS
170 VARICK STREET
NEW YORK

May 25th
1943

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

Dear Mr. Secretary:

Last week I was in Washington for a few hours. During that time, I had a pleasant visit with Ted Gamble. He told me of the changes that you are making in your bond selling organization. I believe that you are making the right moves to get the kind of selling organization which will be needed for the duration and afterward.

By the changes you are making you are overcoming the three principal difficulties which we found; i.e.,

1. Geographical conflict:
Overlapping of states and Federal Reserve Districts.
2. Product conflicts:
A citizen being offered an E Bond when he should be offered a long term $2\frac{1}{2}$, etc.
3. Personal conflict:
Competition and friction between two groups when there should be only one "ball team".

Finally, I am much pleased that you have picked Mr. Gamble to head the new organization. He is liked and respected by everyone. He has real ability and will give the undertaking dynamic leadership. You and he know one another and have learned to work together.

Needless to say you and Mr. Gamble will continue to have all the help the Advertising Council can give you. Mr. Peabody, who will be coordinator for the Council, knows your operations and the Council operations and is uniquely qualified to put the full efforts of the Council task forces at your service. Mr. Lemmon will continue to serve you and assist Mr. Peabody in directing Council operations for the Treasury. I feel sure that these men, with advertising agency task forces from Young &

Page Two

Rubicam, Pedlar & Ryan, Albert Frank-Guenther Law, Ruthrauff & Ryan, Erwin, Wasey, and others behind them, will deliver real help to your new organization.

I am continuing my connection as Vice-Chairman of the Council. Quite naturally, it will be necessary to have an interest in other projects than bond selling. However, the Treasury will always be of special interest to me and if I can be of service in any way, please do not hesitate to call on me.

Sincerely yours,

Harold B. Thomas

H.B. Thomas

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 28, 1943

TO: Secretary Morgenthau

FROM: Robert A. LeRoux

STATE OF WASHINGTON

While the State of Washington, with a non-banking quota of \$90,000,000, went to \$135,000,000 in the Second War Bond Drive, and will exceed \$29,000,000 for E Bonds on all sales processed to the first week in May, this showing is not regarded as the ultimate in possibilities for the State, according to Mr. Karl Richards, Deputy Administrator of the War Savings Staff.

"We could have topped our figures during the April drive had we resorted to some special sales campaigns," declared Mr. Richards. "Realizing, however, that the April drive was but one of the series that will necessarily have to be carried out at regular intervals during the war, we felt it advisable to operate under a program of education, stressing the obligation of our citizens for the duration and the sound basis of the investment as a job-safeguard for civilians when war has ended. While our progress has been slower than in most other States, we are confident that our policy has been sounder and that this will be shown in the Third War Bond Drive and in all future campaigns. In our Payroll Deductions Plan, for instance, we have refrained from having larger employers resort to pressure to bring their workers into line but have urged that the purchase of Bonds be made on a voluntary basis. The after effect, we feel quite sure, will result in fewer redemptions."

INCREASED POPULATION -- The remarkable increase in population in the State of Washington due to war activities accounts in a great measure in the volume of Bond sales. The Federal Census of 1940 showed Seattle with a population of 480,000 and this has now been increased by 111,698; Tacoma has jumped from 136,000 to 162,592; Spokane from 138,000 to 153,999; and Bremerton from 46,000 to 76,866.

EASTERN WASHINGTON -- While time would not allow of my visiting Eastern Washington, reports at State headquarters show that section as making marked progress. Spokane has been slow to move, but the community spirit has awakened and Bond sales are forging ahead. Wenatchee, Yakima, Ellensburg and other agricultural communities are reported as proceeding satisfactorily under the agricultural formula of Dr. William I. Myers.

LABOR -- Headquarters of both the American Federation of Labor and the C.I.O. are located in Seattle, and I conferred in that city with heads of State Councils as well as with secretaries and business agents of Local Unions. While some of these officials -- particularly C.I.O. -- were critical of the Administration generally on its slowness in formulating a tax program, seeming lack of interest in the vulnerability of the Pacific Northwest in the war and alleged slipshod methods in awarding Navy and Army contracts permitting enormous profits, they asked to be placed on record as being unqualifiedly back of the War Bonds program. They asserted that not only were they investing Union funds in Bonds but that at every opportunity they were urging their memberships to purchase to the very limit of their financial ability.

CRITICIZE OPTIMISM -- "One big handicap in our efforts to pep up our members on Bonds is the policy of the Navy and Army of allowing its officers to issue over-optimistic statements that war will be of

comparatively brief duration," declared officials of both the A.F.L. and C.I.O. "When these high-ranking fellows come out with declarations that both Germany and Japan will be licked by mid summer or early Fall, our members not only refrain from buying Bonds, but they swarm the offices of their employers for redemptions of Bonds and cancellations of their pledges. Washington should forget these rosy pictures which are not founded on fact."

HIGH COST OF LIVING--Some labor leaders are severely critical of the procrastination of the War Labor Board in making decisions in wage disputes. They say that this uncertainty has left organized labor members dissatisfied to the point where they do not respond to Bond sales with the enthusiasm they otherwise would manifest. Union members, it was said, also criticize OPA and the slowness in conducting surveys to ascertain the alleged discrepancy in rising costs of living compared to wage increases. They say the newspapers are "over-playing" the John L. Lewis picture, creating a serious breach between A.F.L. and C.I.O. "And when workers become dissatisfied, they don't enthuse in buying Bonds," these Union leaders say.

FOREST PRODUCTS INDUSTRY--Workers in lumber mills, logging camps, plywood and veneer plants, as well as in all wood manufacturing plants have, with comparatively few exceptions, been extremely slow in entering into the spirit of Bond buying. For instance, at the Bloedel-Donovan sawmill at Bellingham, attempts by the C.I.O. to bring pressure on the workers for Bond purchases resulted in many scores of workers, who had signed for 10% payroll deductions, to redeem their Bonds shortly after their issuance. The Long-Bell Lumber Company at Longview, employing 2332 people, practically ceased payroll deductions

for Bonds since last November. Of 554 workers in the Everett Pulp & Paper Company at Everett, but 334 are participating for an average of 10%. The St. Paul & Tacoma Lumber Company at Tacoma, employing 976 workers, has but 574 payroll deduction participants for an average of less than 9%. Of the 706 employees of the Willapa Harbor Lumber Mills at Raymond, 76% are pledged for an average of 8.2%. The Harbor Plywood Company at Hoquiam has 634 workers, of whom 460 are purchasing Bonds for a deduction average of 6%. The Polson Lumber & Shingle Mills at Hoquiam has but 69 of its 260 workers participating in Bond purchases, while the Polson Logging Company of Hoquiam, employing 398, has but 236 participating in Payroll Deductions to the extent of 4%.

OFFER BRIGHTER PICTURE--However, the foregoing gloomy picture does not apply to all of the forest products industry. There is, for instance, the Weyerhaeuser Timber Company at Longview, employing 1837 men and women, 90% of whom are pledged to purchase an average of 10% in Bonds. "This has been our status from the outset," said Mr. Harry E. Morgan. "And we're ready to jump this percentage at any time the word is given us." At Shelton, I was advised by Mr. C. H. Kreienbaum, executive vice president of the Simpson Logging Company, operating lumber mills and logging camps at Shelton and a veneer plant at McCleary, that his company has 91% of its 1403 workers pledged for 10% of their checks. "Our entire personnel is divided into units of ten and one man is assigned to each unit and responsible for signed pledges for Bonds," said Mr. Kreienbaum. The Everett Pacific Lumber Company has 5808 of its 5892 employees participating in payroll deductions of 7%.

SERIOUSLY NEED WORKERS--Officials of the West Coast Lumbermen's Association at Seattle stated employers in the woodworking industry

had and were facing a serious problem in lack of workers, sawmill workers and loggers who had deserted the mills and camps to enter higher-paying employment in aircraft and shipbuilding, and because of this shortage of labor were reluctant to conduct Bond buying campaigns among their workers. Some employers in the State of Washington are now considering adopting the plan made effective in some mills and camps in Oregon of posting notices in the mills and Camps that "On and after _____, 1943, ten percent of all wages will be deducted for the purchase of United States War Bonds unless otherwise ordered."

BOEINGS, SEATTLE--At the famous Boeing Aircraft, the wage controversy in progress for many months has materially retarded institution of the Payroll Deduction Plan. Officials of the company said they had been reluctant about approaching workers for Bond purchases to safeguard against being charged with bringing pressure on such workers. Therefore, very few new workers were enrolled. Of the March payroll of \$6,948,950, Bond deductions of but \$430,425 were made. Officials of the company informed me that the situation has materially improved during April, with 19,950 of the 30,825 employees pledged for payroll deductions. For the first time in many months, Bond booths are now operating in many sections of the plants and foremen are personally soliciting Bond pledges from their crews.

SEATTLE-TACOMA SHIPBUILDING--The pledge campaign has but recently started at the Seattle-Tacoma Shipbuilding Company yard in Tacoma, where 28,000 workers are employed. Hanson Hart, in charge of the Bond department, stated he was operating "Under orders to bring participation to 90% for an average of at least 10%." At the Seattle yard of this company, the payroll deduction plan was put into working order some months ago and H. E. Jamison, director of the Bond

department, stated that for April, there was a 90% participation of the 11,623 employees for an average of 11%. "Our men know the war program is being conducted effectively and most satisfactorily and there is no criticism heard," said Mr. Jamison." Sign them as they come on the job and then there's no sidestepping."

ALCOA--At Vancouver, the Aluminum Corporation of America, I was informed, now has 791 of its 797 employees pledged to payroll deductions of 9.7%. It was stated that the company had, up to February, maintained an average of better than 10% but had dropped just below in the last two months, some of this drop a result of the optimistic war reports by high ranking officers of the military services. At the ALCOA plant at Spokane, the standing is 85% for 8% for its 1095 workers. This, it was explained, is due in a measure to the Spokane plant being a more recent operation.

KAISER YARD--Also at Vancouver I contacted Mr. John Kemper, accountant of the Kaiser shipyard and directly in charge of the Bond program, who stated this yard is operating along the same policy as that prevailing in all Kaiser plants in California and Oregon. Leadermen, foremen and superintendents contact each worker on his being assigned to a department and, said Mr. Kemper, "he signs his pledge before he goes to work." That the plan works well is shown by the report that of the 27,985 workers, 25,529 are pledged for deductions of 10%.

LAKE WASHINGTON SHIPYARDS--At the Lake Washington Shipyards, employing 7800 men, women, 6200 are pledged for 10% deductions and a concerted pledge-campaign is on.

LONGVIEW FIRST T CITY--Outstanding examples of loyal participation in payroll deductions are offered by the City of Longview, which is

the first T City in the State of Washington, with 95 percent of its business and industrial firms pledged to payroll savings; the Crown-Zellerbach Paper Company at Camas, employing 2,145, listed as having 93% participation for an average of 10%, and the Pacific Telephone and Telegraph Company, which shows 93% and 10% for its 3,126 employees.

2,915 FIRMS IN PLAN -- Enthusiasm of industrial and business firms, employing five or more workers, is reflected by the report that 2,915 establishments, employing a total of 425,973 men and women, are enrolled in the Payroll Deduction Plan.

STATE EMPLOYEES--At Olympia, the State Capital, I conferred with heads of the Department, Finance, Budget and Business, who informed me that their latest figures in payroll deductions for State employees covered the month of March and showed participation of 69.69% for an average of 7.35% in all departments. They pointed out that these employees are in the low pay brackets.

STATE TEACHERS--Also in Olympia, I conferred with Mr. Gus A. Muessel, of the State Teachers' Retirement System, who stated correspondence from teachers generally showed them participating in payroll deductions. However, in schools in the rural districts, teachers made their purchases through their class-rooms participating in purchases of military equipment. Mr. Muessel said that of the \$33,000,000 invested by the State of Washington in the Second War Bond Drive in April, the Teachers' Retirement System took \$500,000 as its portion, this money coming from its Investment Fund. The University of Washington has its T Flag, and the King County (Seattle) schools are listed "over the top" in bond and stamp sales to teachers and pupils.

READY FOR FUTURE DRIVES--At Seattle headquarters, it was stated

that the various county chairmen are well aware there will be Bond Drives at intervals of a few months and that all of them are devoting much time in educating their people that bond purchases are not to be periodical but must be for the duration.

Here are some statements from employees at larger industrial plants:

(a) "If they'd get right down to a sensible program of food prices and press down on these food profiteers, there wouldn't be so many of us girls compelled to turn in our bonds following each pay day."

(b) "If we girls at the shipyards pledge 10% of our pay, then proportionately these men getting \$12 to \$15 a day, could sign up for 20%."

(c) "I have four brothers in the Army and a son in the Navy, and from what they tell me this country is going to need a lot more money to end this war quickly. I should think the pledge average would be made 15%, at least."

(d) "Twenty years is a long time to wait for a baby sister for our son who is now in North Africa, but she finally came and we have celebrated by giving her a present - a \$1,000 war bond."

(e) "We mothers are proud of our record. There are 14,000 of us working in the three Kaiser yards in Washington and Oregon, and nearly 13,000 of us are buying bonds on an average of 11% of our wages."

(f) "I am a lawyer, so I work on the graveyard shift so I can attend to my legal practice in the daytime. I am signed up for 100% of my wages with the Seattle-Tacoma shipbuilding yard here in Tacoma for war bonds."

(g) "I was a naval aviation machinist at Pearl Harbor on December 7, 1941, and a piece of shrapnel put me in the hospital. Although I

am still on crutches, Kaiser gave me a job. I know how important it is to be buying bonds."

(h) "I was with the United Air Lines, but I am now a production welder on the graveyard shift. Personally, I think buying war bonds should be compulsory."

(i) "I am working on a nipple cutting machine. My husband is a welder and Grandma is minding the baby. We are all engaged in war work and we are all buying bonds - even the baby."

(j) "I've never been late or tardy since I first came to work at the Kaiser plant here in Portland, October 9, 1941. And I've always been thrifty, and I am proud that I now own \$8,000 in war bonds."

(k) "I was graduated two years ago from the University of Shanghai. I saw the horrors of Jap invasion and I resolved to dedicate my technical training to shipbuilding. I am signed up for war bonds for one-third of my wages."

(l) "Am I buying bonds? I'll say so, because I have two sisters, two brothers and a mother living, I hope, in German occupied France. The last letter I got from them was smuggled out in 1940 and they asked for clothes and for food and the boys said they were working 11 hours 7 days a week."

(m) "My husband and our 10 year old daughter were born in Austria. I came here with the girl on a visit in 1938, when Hitler moved into Austria. My husband escaped to Belgium and now both of us are working here at the Kaiser plant and 50% of our pay is going into war Bonds."

(n) "I have never missed an hour's work as a pipe welder supervisor here at Swan Island since March 5th a year ago, and that makes it possible for me to buy a \$50 war bond each week."

- 10 -

(o) "We are proud here at the Oregon Kaiser yard at our showing the purchase of war bonds. In fact, we're proud of everything we do. In the March of Dimes during the Infantile Paralysis campaign we came through with \$8,353 in these three yards."

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TREASURY DEPARTMENT

WASHINGTON

May 28, 1943.

MEMORANDUM FOR THE SECRETARY:

In accordance with your request a few days ago, I submit below a list of State Administrators and State Chairmen in the War Savings Staff, who in my opinion might be replaced to advantage in view of the larger duties which will now devolve upon their respective offices:

Georgia

Arthur Lucas, State Chairman

Indiana

Wray E. Fleming, State Administrator

Massachusetts

Edward Connelly, State Chairman

New Hampshire

William H. Partlan, State Administrator

New York

Nevil Ford, State Administrator

Texas

Tom Miller, State Chairman

West Virginia

Albert Snedeker, State Chairman

Wisconsin

Charles E. Broughton, State Chairman

In addition to the foregoing, it is my feeling that, as a matter of policy, all Collectors of Internal Revenue and Collectors of Customs now serving as State Administrators ex officio, should be replaced as rapidly as well



Memo. for the Secretary--2

qualified persons can be found to succeed them. In dealing with these cases, however, it should be remembered that most Collectors have been performing their duties in the War Bond program with efficiency and success, and that many could be relied upon to handle the new program satisfactorily, were it not for the constantly increasing burdens of their regular duties.

In carrying out this suggestion, the following cases should in my judgment be taken up first, and as soon as practicable:

Arizona

William P. Stuart

Georgia

Marion H. Allen

Maine

Clinton A. Clauson

Michigan

Giles Kavanaugh

Missouri

Dan M. Nee

Nevada

Robert L. Douglass

Texas

Frank Scofield

Vermont

Fred C. Martin

Wisconsin

Frank J. Kuhl

When the foregoing cases are disposed of, twelve Collectors of Internal Revenue and three Collectors of Customs will remain as State Administrators. On the whole, these are the more effective of the present group

Memorandum for the Secretary--3

of Collectors serving as Administrators, and in my opinion all have every needed qualification for leadership in the enlarged war-bond program. Nevertheless, for the reason above indicated, I believe that it would be well to replace them with other appointees, State by State, as fast as well qualified persons can be found to serve as Administrators on a full-time basis.

In accordance with your request, I have reexamined the cases of all division and section heads in the War Savings Staff at Washington headquarters, and of our field representatives who travel out of Washington. While these naturally vary greatly in their qualifications and in the effectiveness of their work, my opinion is that there is no case at Washington headquarters in which the employee's performance record is such as to warrant his separation from our service at the present time.

I have gone over these matters with Mr. Gamble, as you asked, and he has told me that he concurs with my suggestions.

~~GRAVES.~~

MEMORANDUM FOR THE SECRETARY.

May 28, 1943.

Mail Report

With little correspondence about taxes, much about Bonds, and nothing really new, this week's receipts were a great deal like those for last week.

Again, most of the tax mail went to the White House or possibly to Congress. During the week the White House referred to the Treasury 178 pieces of mail that were anti-Ruml, but very little that was pro-Ruml.

Some 30-odd persons writing directly to the Treasury advocated a pay-as-you-go plan, but half of them opposed forgiveness of any part of the public's tax obligations. Only 4 writers proposed that 1942 taxes be forgiven, but treated as taxable income for 1943. One person felt that, because of the psychological effect, the new withholding tax should be called the Victory Tax, also.

The pleasant aspects of the heavy Bond mail were overshadowed by the complaints coming from employees of the War Department who have not received their Bonds, some of which have now been paid for more than a year. The 75 letters of complaint, one of them signed by 18 persons, ranged from simple requests for Treasury investigation of delays to threats to call in the F.B.I. to find out what is happening to the Bonds.

Bonds submitted for redemption during the week set a new record, with a total of 86. (16 were postmarked "Patchogue, N.Y.")

The few letters that have commented on the proposal to reduce the size of Bonds were in general receptive to the idea.

- 2 -

Memorandum for the Secretary.

May 28, 1943.

There were more than the usual number of complaints about charges for cashing Government checks and Bond coupons, and for redeeming Bonds.

Nearly all of those who protested the new pennies added a suggestion that holes be punched in them.

A handwritten signature in cursive script, appearing to read "J. F. Forbush". The signature is written in dark ink and is positioned to the right of the main text of the memorandum.

General Comments

George M. Craig, President, Merchants National Bank, Port Arthur, Tex. I have a tale of woe. All of our manpower has been drafted for the duration, except a few of us who are old and decrepit. We replace the men with women; and, as soon as we train them, along comes a railroad, a rubber plant, or a shipyard and offers them much more than we can pay. When we protest, we are told that we are not necessary to help win the war. No one knows better than yourself what the banks are doing to help win this war. You know that the banks sell and buy more War Bonds than all others combined. We furnish the money without which we would lose. We employ, at our own expense, extra tellers who do nothing but sell Bonds and handle ration stamps. The only evidence a bank has that it is necessary to our War effort is that we are subject to the terms of the wage-hour law. The Government is in competition with us in loaning money. They use our own money to loan against us. No one knows these facts better than yourself. What can, or will, you do about it?

George H. Buecking, Kansas City, Mo. As a member of the governing body of the United States, I should like to ask you just one question. Just who is supposed to enact the laws governing the lives of 135 million citizens -- the Congress of the United States or the National Resources Planning Board, and men such as Alvin H. Hanson, Special Economic Adviser of the Board of Governors of the Federal Reserve Board? * * * I am almost horrified when I read in this morning's paper that "the deficit idea is upheld by the advocates of the new philosophy". This philosophy is that a huge public debt is a national asset. According to the newspaper article, these advocates are from the following groups: "The new conception is advocated by the National Resources Planning Board, by numerous individuals high in the councils of the Government, and various groups not connected with the Administration". I am in favor of spending billions of dollars to win

a war. I'm also in favor of collecting taxes from millions of individuals now while the taxes are collectible. * * * I'm in favor of taxing these millions for several years after the war, and in the usual way reducing the national debt. In fact, I am just a plain old-fashioned American and there is no place in my philosophy of life along the lines outlined by the National Resources Planning Board. I realize that these men are all entitled to their opinion, but my own opinion is that Government debts are the same as personal debts, and should ultimately be liquidated.

Eugene C. Smith, Los Angeles, Calif. (Letter addressed to "Treasury Department, Washington, D. C.") I can sympathize with the Skipper of the Toonerville Trolley as I have just become a victim of the latest coin -- the new one-cent piece. Recently, in receiving change one of these coins was given me in the place of a dime. This was not discovered until after leaving the store, consequently, I could not return and demand the remaining nine-cents due. Just who is the cock-eyed nit-wit responsible for this new one-cent coin, making it difficult to distinguish between it and a dime or a five-cent piece? And what is the object of adding an additional burden on the American people, particularly in times like these? I take it that it is just another New Deal prank for which we must suffer as we have for the past ten years. Oh God, what a relief it will be when this present gang is driven out of Washington! Truly, then will be our Real Thanksgiving Day.

Mrs. M. T. Duncan, Duncan College Preparatory School, Nashville, Tenn. Please, please, have a hole punched in the silver colored pennies so that a suffering public can tell them from dimes.

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Favorable Comments on Bonds

C. D. Owen, Jr., Treasurer, Beacon Manufacturing Co., (Beacon Blankets), Swannanoa, N. C. In reply to your telegram of the 17th, I wish to advise that we have not had any difficulty in receiving the War Bonds promptly after they are sold to our employees. It is very gratifying to see the way the Second War Bond Drive went over the top, and I think you and your associates should receive a great deal of credit for the way in which it was handled.

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Unfavorable Comments on Bonds

Reese D. Close, Midland Park, N.J. I am writing to you for advice as to what I should do in order to discontinue the purchase of War Bonds on the payroll deduction plan. I have been trying for the past five weeks to do so, but just cannot seem to get any action on it. I have explained to my employer every detail as to why I wish to do so, but he just seems to avoid the subject. Would you be so kind as to advise me if this can or cannot be done? My reason is that I want to pay cash for them on the outside, and I am sure that I can double the amount by doing so this way.

Letter from Russell A. Latta, Yukon, Okla., addressed to the President and referred to us by the White House. Now I want an immediate personal reply to this, please. I am a Patrolman at Oklahoma City Air Depot. I never took out the 10% War Bond, as my poor old gray-haired wife enjoys buying Bonds, so I let her buy them at the Yukon Post Office. She has three sons in the service (they are my stepsons) and she is in very poor health, so I let her enjoy herself buying them. I went to work last August 21, and to date she has bought \$600 worth of Bonds. * * * This morning I was told at the Depot I would have to buy Bonds there or I'd be sorry of it. I asked if that was a threat and they said, "Wait and see". Several of the Patrolmen have never received the Bonds they have been paying out for and several say they will quit before they will take out Bonds over there. Is it a compulsory law to take out 10% of your wages? Do I have to wait until they get ready to hand me my Bonds, besides depriving my wife the pleasure of buying them, or can they fire me from my job? * * * I'm a true American and doing all I can for our Country, but I don't like that threat.

Theo. R. Dienger, South Miami, Fla. I was employed by the U. S. Engineers Office at 36th Street Airport in Miami, and on October 9 I signed War Savings Bond,

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Class A, pay reservation application, of which \$18.75 was to be taken out each payday starting on October 15, 1942. I have been endeavoring to get these Bonds as I think there has been ample time, and now I have been directed to your office after being directed all over Florida and Georgia. It seems no one knows where I should get them, and if you haven't the Bonds and you send the money taken out, I could buy the Bonds here in a few minutes. * * *

John Egbert, Ten Sleep, Wyoming. I am writing to you about a Bond that was supposed to be issued to me at Coeur d'Alene, Idaho. Now here is the thing in a nutshell -- I was working for Walter Butler Company, Contractor for Naval Training Station. They held out \$18.75 for a Bond and when I left, they were to send the Bond to my son at Ten Sleep, Wyoming. He did not receive it, and I wrote to them about a week ago. I received a check for \$15.00 instead of my Bond, for which I paid \$18.75, and the check is dated March 29, 1943, and supposed to be cashed in thirty-days besides. Please will you look this up or have it done? As it looks like a gyp to me of \$3.75, besides a check which is no good.

Mrs. Walter E. Erler, N.Y.C. Since 1941 I have bought, out of savings, etc., exactly \$2,000 worth of Bonds, which I consider very good for a widow who has had to return to business with no available cash. * * * My father was 84 years old and in April, 1942, he passed away. I went to the Federal Reserve Bank to change his name as beneficiary on a \$500 Bond, and brought with me, in addition to the Bond, a copy of the death certificate and a printed form issued by the Government, duly filled in and signed. The clerk told me he could not accept the Bond and make the change as my father's name on the Bond reads "Frank A. Wernert", whereas his death certificate reads "Frank Albert Wernert", the regular printed form asking for first name, middle

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name, etc. I explained that my father was always known as Frank A. and that this "Frank Albert Wernert" was just to comply with a printed form that has been in use for years. However, he insisted I must get affidavits signed and sworn to before a notary by friends who have known my father for at least 10 years to the effect that Frank A. and Frank Albert was one and the same. This has cost me, thus far, \$1.50 for the transcript; now two notaries to attest signatures of friends, at least \$.50 and, in addition, I must have the affidavit prepared. All of this is costing me money, and naturally makes me feel that I have bought my last Bond. No one wants to see the end of hostilities more than I do, with two splendid nephews in the service, but if, to make a change, I have to go to all this expense and annoyance, the war will have to be won without my buying more Bonds. * * *

T. F. Witherspoon, Randall H. Hagner & Company, Real Estate, Washington, D. C. On April 19, 1943, I purchased a \$500.00, 2½% Treasury Bond through the Hamilton National Bank, Dupont Branch, and in order to purchase this Bond, I borrowed \$500.00 from the bank, and I am to pay the bank at the rate of \$50.00 per month. They are charging me 6% interest until the Bond is received, then 2½% interest. As it has been over a month, I would like to find out, if possible, when I will receive the Bond as I do not want to continue paying the bank 6% interest. Would you please let me hear from you at your earliest convenience?

Mrs. George G. Scott, Winter Park, Fla. * * * When ordinary soldiers pledge part of their pay to buy War Bonds, and never get to see what they are paying for, though their wages are always deducted for that purpose, do you think it may not hurt their morale -- or don't you care as long as you get the money for the Treasury? My son has been keeping up his part of the bargain for over 6 months, why can't you keep yours? Some of us Mothers could address envelopes for you.

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Favorable Comments on Taxation

Jacob I. Horowitz, Counselor at Law, N.Y.C. This Congress is making a laughing stock of itself trying to show how much smarter it is than the last one. Nobody asked it to forgive income taxes. The public knows that there is a war on, and is paying cheerfully. The rate was computed and fixed by the last Congress, and is or at least should be a closed chapter. Pay-as-you-go is important and desirable, but there is no reason to create confusion in the process of seeking simplicity. The Victory Tax is a step toward pay-as-you-go, so that the taxes for 1943 are in the process of partial payment. Increase this to 10% beginning July 1 and you will have a substantial portion of this year's taxes paid by the end of the year. Increase it further to about 20% beginning January 1 or July 1, 1944, and you will have accomplished practically painless transition to pay-as-you-go.

C. R. Random, Tucson, Ariz. This Indian came to me with a letter from his son which I read for him. * * * Then finally he asked if I would write a letter for him to the local newspaper, of which I am enclosing a copy as dictated by the Indian. I was amazed at the son's letter, and also the Indian's request. The Indian works for me at times, and certainly is not dumb. (The following is the letter addressed to the newspaper by Pedro Mendosa.) I, Pedro Mendosa, am a Papago Indian and have received a letter from my son, Fernando, who is a soldier in the Army. My son tells me that his friends are not happy about a man named Ruml who will not pay his taxes, which the Government needs to make War. My son says that he may be related to the enemy General in Africa, but I am sure this is not so. My son says that his soldier friends say that after they have fought and beaten our enemies, they will come home and then have to work very hard to pay to our Government the taxes which Senior Ruml refuses to pay now to help win the War. I am sure this is not so, and would like you to make it clear in your paper.

Unfavorable Comments on Taxation

George W. Benton, Secretary-Treasurer, Trade Association Executives Forum, Chicago, Ill. * * * I hope that before very long there will be some settlement of the income tax problem. If this is permitted to drag along it seems to me that it will have a bad effect.

John Hoffa, Kingston, Pa., sends the Secretary copy of a letter he has addressed to the Collector of Internal Revenue, Scranton, Pa. Notice and Demand for additional income tax on account of 1941 of \$316.14, plus interest of \$20.32, received. I enclose check for \$336.46 to cover same. Final notice of amount demanded was not received until May 18, 1943, and I am charged at the rate of 6% interest in spite of a delayed audit and final notice of more than a year. I was advised by the Philadelphia office by letter dated February 3, 1943, that the audit had been completed, but not to make payment until notice was received from the Collector of Internal Revenue. * * * April 2, 1943, I received letter from Philadelphia office asking for additional information with respect to \$1,500 exemption in my report before examination could be completed, and requested copy of my wife's report for the year 1941, "indicating the personal exemption claimed therein", implying a suspicion that together we had exceeded the \$1,500 allowed. Copy of her report was mailed to Philadelphia office April 19, 1943, which showed no claim was made for any exemption, which information was a matter of record at the Scranton office; and finally the notice and demand for the additional tax of \$316.14, plus \$20.32 interest is now received. In my opinion, to charge interest at the rate of 6% before the final demand is made seems unfair. The delay in making the audit could go on indefinitely with interest accumulating. One naturally expects fair treatment from the Federal Government, and so the following question arises in my mind:

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Would the Federal Government allow 6% interest if I had overpaid my tax by \$316.14? On the Government envelope containing bill for tax due is stamped, "Buy War Bonds and Stamps", which is fine and as it should be; however, I receive 2 $\frac{1}{2}$ % interest from "Uncle Sam" on his Bonds I own, and he demands 6% on balances due him. The Federal Government loans money to people to buy farms and homes at the interest rate of 4%, so why charge others 6% for balance due on taxes, regardless of the time taken to make the audit? I presume this letter will receive scant attention, but perhaps some one in your office or the U. S. Treasury Department may, after all, be good enough to reply.

F. L. Hague and F. W. Benninon, Minneapolis, Minn.
(Day Letter) General impression is proposed income tax law much too complicated and difficult to administer. Suggest you consider more simple application of pay-as-you-go plan by allowing forgiveness of all '42 taxes with requirement that saving thereunder be considered as additional income for 1943. Believe net revenue realized will equal that under present proposed law.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

May 28, 1943

TO Secretary Morgenthau
FROM Randolph Paul

On May 26 I sent to you a clipping from the Wall Street Journal on Chester Davis' statement to the National Association of County Officials on expenditure rationing.

I know you will be interested in reading the attached letter which was sent to me by hand from Chester Davis.

Read with interest!
H.M.P.
noted by Mr. Paul:
Noted by Mr. [unclear] 6/2/43

WAR FOOD ADMINISTRATION

WASHINGTON

OFFICE OF THE ADMINISTRATOR

May 28, 1943

Mr. Randolph Paul
Department of the Treasury
Washington, D. C.

Dear Mr. Paul:

During my appearance before the Senate Agricultural Committee this morning Senator Gillette questioned me about the meaning of the words "rationing of purchasing power" which appeared in the text of an address I had prepared for delivery at Omaha on Tuesday, May 25. At the close of the hearing some of the newspaper men told me they had written a story implying that I had some new scheme in mind and that they had asked you about it.

I asked for permission to insert in the record of my testimony an explanation of the way in which the words were used. I enclose a copy of that explanation.

Believe me, I have nothing further in mind.

Sincerely yours,



Administrator

Enclosure

The press, justifiably enough as I see on re-reading the text of my address prepared for delivery at Omaha, assumed that the words, "rationing of purchasing power" implied that I had in mind some new system of over-all rationing of the amounts individuals can spend. I had nothing of the sort in mind. The whole meaning of the phrase as I intended it appears clearly, I believe, in the two closing sentences of the paragraph in question. I said: "And the more courage and common sense we use in rationing this large supply of money we have on hand, through taxation and investment in our government, the less we will have to resort to rationing the large supply of food we have on hand. The mopping up of this purchasing power will accomplish much of the problem itself, and will do it automatically and less painfully than by rationing the food." That makes it clear, I think, that the words "rationing of purchasing power" were a generalization referring to heavier taxation at source, and heavier individual investments in government bonds which I have consistently advocated as fundamental in any coordinated program to control inflation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

MAY 28 1943

TO Secretary Morgenthau
FROM Randolph Paul

For your information:

On Thursday, May 6, when the conference report on the Foreign Funds Control came up in the House of Representatives Taber, who is the ranking Republican representative of the Treasury sub-committee, continued his opposition to an adequate appropriation for the Foreign Funds Control. In the course of his remarks Mr. Taber made the following statement:

"Then there were some people approached in New York by this outfit and they were asked what their politics was. When they said their relatives were Republicans they began to ride them. I do not like that way of doing business. The fellow who was sent out to do that job could pretty well be eliminated and save some money to the Federal Treasury."

When this statement was called to my attention by Pehle, I sent a letter to Taber referring to the statement which he had made. I indicated that I was very much surprised that a charge of this character should be levelled against anyone connected with the Treasury and suggested that Taber might have been misinformed. I indicated that if Taber would supply us, in confidence, with any specific information in his possession a thorough investigation would be made and any corrective action necessary would be taken.

Subsequently, Taber called while I was out of the office and later spoke to Under Secretary Bell. He told Bell that the matter to which he was referring was the investigation of the French Line and he had been advised of the Foreign Funds action by Congressman Joseph Baldwin (Republican) of New York.

Pehle and I went to see Baldwin on May 26. Baldwin said that apparently a serious mistake has occurred since the only

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discussion he has had with Taber with regard to the French Line or the Foreign Funds Control was a casual conversation over cocktails some time ago in which he had referred to the fact that in investigating the French Line the Foreign Funds Control representatives had inquired as to whether certain of the officials were pro-Vichy or pro-de Gaulle. Baldwin said that he had no knowledge of the Foreign Funds Control ever inquiring as to whether persons under investigation were Republican or Democrat. Baldwin said that he would get in touch with Taber and explain that a mistake had been made and attempt to rectify the damage. He also said that if necessary he would be willing to explain on the floor of the House that the Foreign Funds Control had not been guilty of the practices which Taber alleged.

Incidentally, Morin de Linclays, head of the French Line, whom we have regarded with considerable suspicion, is a cousin of Congressman Baldwin.



CC: Under Secretary Bell

STATEMENT BY THE PRESIDENT

To unify more closely the work of the war agencies concerned with the production, procurement, transportation and distribution of military and civilian supplies, materials and products, I am creating the Office of War Mobilization which will be under the direction of Justice James F. Byrnes.

Justice Byrnes will be assisted by a War Mobilization Committee composed of the Secretary of War, the Secretary of the Navy, the Chairman of the Munitions Assignment Board, the Chairman of the War Production Board and the Economic Stabilization Director. The Committee has been purposely kept small so that it can function most effectively. But the heads of the various departments and agencies will be asked to sit with the Committee whenever matters of special concern to their departments or agencies are under consideration.

The Committee will lay down unified policies and develop integrated programs and will see that the policies established and programs developed are expedited. In addition to its regular meetings, the Committee will meet from time to time with me in the Cabinet room.

We are entering a phase of the war effort when we must streamline our activities, avoid duplication and overlapping, eliminate inter-departmental friction, make decisions with dispatch, and keep both our military machine and our essential civilian economy running in team and at high speed.

Justice Byrnes is resigning as Economic Stabilization Director to become Director of the Office of War Mobilization. Judge Fred M. Vinson, of Kentucky, now a member of the U. S. Circuit Court of Appeals, will succeed Justice Byrnes as Economic Stabilization Director. Judge Vinson was a member of Congress for fourteen years and for eight years of that period a member of the House Ways and Means Committee.

EXECUTIVE ORDER

PROVIDING FOR THE ESTABLISHMENT OF AN
OFFICE OF WAR MOBILIZATION

By virtue of the authority vested in me by the Constitution and the statutes of the United States, particularly by the First War Powers Act, 1941, as President of the United States and as Commander-in-Chief of the Army and Navy, and in order to provide for the more effective coordination of the mobilization of the nation for war, it is hereby ordered as follows:

I.

There is established in the Office for Emergency Management of the Executive Office of the President an Office of War Mobilization which shall be under the direction of a Director of War Mobilization (hereinafter referred to as Director), to be appointed by the President.

II.

There is established in the Office of War Mobilization the War Mobilization Committee (hereinafter referred to as the Committee), of which the Director shall be the Chairman and with which he shall advise and consult. The Committee shall consist, in addition to the Director, of the Secretary of War, the Secretary of the Navy, the Chairman of the Munitions Assignments Board, the Chairman of the War Production Board, and the Director of Economic Stabilization. The Chairman shall request the heads of other agencies or departments to participate in the deliberations of the Committee whenever matters specially affecting such agencies or departments are under consideration. It shall be the duty of the heads of the agencies and departments to supply necessary data to the Director and the Committee.

III.

It shall be the function of the Office of War Mobilization, acting in consultation with the Committee and subject to the direction and control of the President,

(a) To develop unified programs and to establish policies for the maximum use of the nation's natural and industrial resources for military and civilian needs, for the effective use of the national manpower not in the armed forces, for the maintenance and stabilization of the civilian economy, and for the adjustment of such economy to war needs and conditions;

(b) To unify the activities of Federal agencies and departments engaged in or concerned with production, procurement, distribution or transportation of military or civilian supplies, materials, and products and to resolve and determine controversies between such agencies or departments, except those to be resolved by the Director of Economic Stabilization under Section 3, Title IV of Executive Order 9250; and

(c) To issue such directives on policy or operations to the Federal agencies and departments as may be necessary to carry out the programs developed, the policies established, and the decisions made under this Order. It shall be the duty of all such agencies and departments to execute these directives, and to make to the Office of War Mobilization such progress reports as may be required.

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IV.

The Office of War Mobilization may perform the functions, exercise the powers, authority and discretion conferred on it by this Order through such officials and such agencies and in such manner, as the Director, subject to the provisions of this Order, may determine. The Director shall receive such compensation as the President shall provide, and within the limits of funds which may be made available, may employ necessary personnel and make provision for supplies, facilities and services necessary to discharge his responsibilities.

All prior executive orders insofar as they are in conflict herewith are amended accordingly.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

May 27, 1943.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

May 26, 1943

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 May 19, 1943, 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.

Int. E. M. B.

COPY

FEDERAL RESERVE BANK
OF NEW YORK

May 27, 1943

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

I am enclosing our compilation for the week ended May 19, 1943, 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. Kroke,

L. W. Kroke,
Vice President.

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

Enclosure

copy:lma:5/29/43

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

Week Ended May 19, 1943.

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	Others 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 (d)
First year of war (a)	223.0	16.6	206.4	204.7	112.7	20.9	38.7	32.4 + 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
For 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 (b)	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 (c)	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	44.9	-	44.9	51.5	16.6	-	-	34.9 + 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4 + 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0 - 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.6
1943															
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1 + 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5 + 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6 + 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	25.0	-	25.0	39.6	-	-	-	39.6 + 10.6	16.4	15.1	1.3	19.3	-	19.3	+ 2.9
WEEK ENDED:															
Apr. 28	6.1	-	6.1	4.0	-	-	-	4.0 - 2.1	0.1	-	0.1	0.2	-	0.2	+ 0.1
May 5	6.7	-	6.7	22.8	-	-	-	22.8 + 16.1	3.0	1.0	2.0	3.3	-	3.3	+ 0.3
12	56.5	-	56.5	12.3	-	-	-	12.3 - 44.2	12.0	12.0	-	12.8	-	12.8	+ 0.8
19	9.6(d)	-	9.6	24.8(e)	-	-	-	24.8(f) + 15.2	3.4	3.0	0.4	3.5(g)	-	3.5(h)	+ 0.1

Average Weekly Expenditures.

First year of war
Second year of war
Third year of war

6.2 million.
8.9 million.
10.1 million.
8.8 million.

- (a) For monthly breakdowns see tabulations prior to April 23, 1941.
- (b) For monthly breakdowns see tabulations prior to October 8, 1941.
- (c) For monthly breakdowns see tabulations prior to October 14, 1942.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Does not reflect transactions in short term U.S. securities.
- (f) Includes \$ 1.8 million received from U.S. Government and \$18.3 million received from U.S. Treasury.
- (g) Includes \$3.0 million credited to Australia for a... of United States to be applied against U.S. Currency and Tr...

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended May 19, 1943

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE				
	D E B I T S				C R E D I T S				Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)	Net Incr. (+) or Decr. (-) in \$ Funds (d)	
	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Transfers from Official Australian Account					Other Credits (c)
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
1942													
Sept. 1 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1943													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
WEEK ENDED:													
Apr. 28	14.3	8.4	-	3.9	14.6	-	-	-	14.6	+ 2.3	-	-	-
May 5	6.8	4.7	-	2.1	17.8	-	-	1.0	16.8	+ 11.0	-	-	-
12	45.0	59.7	-	5.3	24.8	-	-	12.0	12.8	- 40.2	-	-	-
19	8.4	3.4	-	5.0	33.5(j)	-	-	3.0	30.5(k)	+ 25.1	-	-	-

Average Weekly Expenditures Since Outbreak of War
France (Through June 19, 1940) \$19.6 million

See attached sheet for footnotes.

England (since March 19, 1940) \$27.6 million
England (since March 12, 1941) \$54.9 million
England (since March 19, 1941) \$23.0 million

(j) Includes

\$22.7 million - apparently representing current and accumulated dollar proceeds

Regraded Unclassified

- (a) Includes payments for account of British Ministry of Supply Mission, 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 current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes:
- 322.9 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports.
 - 3.0 million held for credit of U. S. Army.
 - 3.0 million transferred from Reserve Bank of New Zealand account at this bank.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

May 29, 1943

I had a long conversation with Congressman Doughton this morning in which he indicated that he had come to a somewhat belated realization of the "threat" you made yesterday. Mr. Doughton seemed to feel that relations would be damaged if you criticized Congress for not imposing taxes. I tried to explain the difficulty of your situation and responsibility. Doughton's view, of course, is as usual; we should keep our mouths shut and take what he chooses to give us even if it is nothing.

Most of the rest of the conversation was directed to the impossibility of doing anything about additional taxes when the Departments in Washington were wasting money so furiously. The folks back home won't stand for additional taxes when this sort of thing is going on, and the folks back home have more influence on Congressmen than anyone else.



May 29, 1945.

Dear Mr. Replier:

Although I haven't yet had an opportunity to meet you, I want to thank you for the superb job you and the Council did on the recent "Report to the People" advertisement. I understand you prepared this advertisement overnight, which makes it all the more remarkable.

I feel that this is one of the finest advertisements we have had to date in the bond campaign. I know that you will be a great help in the task that lies ahead.

Sincerely yours,

(Signed) W. Morganthau Jr.

Mr. Theodore S. Replier,
Advertising War Council,
Washington, D. C.

Forwarded 5/31/45 from D. Y.

May 29, 1945.

Dear Mr. LaRoche:

I have just written a note to thank Mr. Reppier for his substantial part in preparing the "Report to the People" advertisement which is now running in the newspapers. I also want to thank you for your part in it.

I am very much impressed with this advertisement. I think it is straight-forward, interesting and to the point. It conveys the distinct impression, in my opinion, that we are relying on the people's own patriotism and judgement to get this great financing job done.

That, I think, is the proper approach. I have great confidence in the American people. If we will just let them know the facts, they will not let us down. I know that you feel the same way, so let's consider this in our future campaigns.

Sincerely yours,

(Signed) H. W. Maguire, Jr.

Mr. Chester LaRoche,
Advertising War Council,
Lincoln Building,
New York, New York.

Mailed 5/31/45 from NY

EW/13

May 29, 1943

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

FIELD DIVISION

Women's Section

The latest "Home Front Journal" has been distributed. (Attachment #1)

Copies of a new program for the Garden Club of America have been distributed with a covering letter to State Women Chairmen.

Motion Pictures and Special Events Section

Special talent at recent "Americans for Victory" rallies were James Melton, Bidu Sayao, Mrs. Crystal Fauset and Constance Bennett.

The War Bond Baseball Game held in Washington, D. C. on May 24 between the Washington Senators and the Norfolk Naval

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5/29/43*

FIELD DIVISION

Motion Pictures and Special Events Section (Continued)

Training Station All Stars, resulted in the sale of \$2,125,375 in War Bonds. Special talent at the game included Kate Smith, Bing Crosby, Al Schaact, Babe Ruth and the U.S. Navy Band. Sir Archibald Wavell, Field Marshal of His Britannic Majesty's Forces in India, attended.

Results of special plane campaigns completed up to May 20th in the "Buy A Bomber Or A Fighter" campaign are attached. (Attachment #2)

The "Truth or Consequences" War Bond Broadcast from Salt Lake City, Utah, on Saturday, May 22, resulted in the sale of \$1,579,650 worth of War Bonds. This brings the total for the eleven-week tour to \$181,000,000.

During the past week the Two-Man Jap Sub visited Boston, Lynn, Haverhill, Lawrence, Lowell, Fitchburg, Worcester, Springfield and Holyoke in Massachusetts, and Manchester, New Hampshire.

Agricultural Section

In less than a month the Georgia 4-H Club boys and girls recently over-subscribed the required \$1,950,000 by more than \$600,000 to complete the nation's first "Name A Liberty Ship" campaign. An explanation of the "Name A Liberty Ship" idea has been sent to all State 4-H Club leaders.

The American Farm Bureau Federation reports well over \$2,000,000 in E Bonds have been purchased by Farm Bureau members,

FIELD DIVISION

Agricultural Section (Continued)

or sold as a result of the campaign put on by the Farm Bureau.

About 10,000 neighborhood leaders of the Agricultural Extension Service in West Virginia will canvass every farm family beginning about June 1st. Each canvasser will be equipped with an application for the purchase of War Bonds, and also a pledge card on which each farm family may indicate the kind and amount of Bonds they expect to buy during the remainder of 1943.

Education Section

Under the sponsorship of the Music Educators National Conference, a creative project for writing War Savings songs is being conducted among school students of all grade levels. Over two thousand manuscripts, many with original music, have been received.

Payroll Savings Section

Attached is a list of companies which have been reported as having achieved the goal of 10% during the past week. (Attachment #3)

The analysis of exposure to Payroll Savings as of May 15, 1943 is attached. (Attachment #4)

Retail Section

This section has announced a July retailers' program to build the mystery ship - "Shangri-La" - with War Savings Stamps. A national quota in War Stamps has been set of \$131,669,275. This

FIELD DIVISION

Retail Section (Continued)

represents a dollar in War Stamps from every man, woman and child in America.

A special edition of "Big Guns", together with posters, is now in preparation for some 1,000,000 retailers.

Field Memoranda

Recent memoranda sent to the field include numbers 614, 615, 616, 617, and 618. (Attachment #5)

Special Activities Section

On May 15th Geneva, New York, became the State's sixth Treasury Flag City. Out of Geneva's 54 business concerns, 50 have installed Payroll Savings Plans. These participating concerns employ a total of 3,842 workers, of which 93% are investing regularly in War Bonds.

Neighborhood Theatres, Inc. of Richmond, Virginia, report that its ten theatres sold \$1,292,282.95 worth of War Bonds and Stamps during April.

During the Second War Loan Drive in April, New York City's 24 foreign language groups united in a War Bond goal of 100 PT Boats. Instead they raised \$80,000,000 or enough to buy 150 new PT Boats.

On June 14th a six-weeks' campaign, "Bombers for Tokio", will be launched by Station WTAG and the Worcester, Mass. Telegram and Gazette.

FIELD DIVISION

Special Activities Section (Continued)

\$3,928,588 in War Bonds were sold during a six-weeks' Bomber Drive conducted by the A. F. of L., the C. I. O., and the Railroad Brotherhoods in Schenectady, New York.

The Bond selling contest between Luton, Bedfordshire, England and New Bedford, Mass., which began on May 15th, was successfully completed May 22nd. Final results were, total sales of Bonds and Stamps, on a cash basis, for Luton, \$5,812,464 and on a cash and pledge basis \$7,390,334 for New Bedford, Mass.

NATIONAL ORGANIZATIONS DIVISION

Labor Section

A representative of this section recently addressed the Michigan State Federation of Labor Convention, Detroit, Michigan; The International Union of Plate Printers and Dye Stampers of North America Convention, New York City; the Federal Labor Union No. 19459 (AFL) and the management of the Stevens Arms and Tool Company of Chicopee Falls, Mass.

Foreign Origin Section

A representative of this section addressed a meeting of the Pennsylvania Lodge of the Sons of Italy in Altoona, May 23rd.

Plans have been outlined for the circularization of all national foreign origin organizations, asking each group to undertake a nationwide drive among its members for a definite objective - from warships down.

NATIONAL ORGANIZATIONS DIVISION

Foreign Origin Section (Continued)

Requests have been made of all foreign origin church groups for places on their convention programs for the presentation of the Liberty-Ship Campaign program.

Fraternal Section

The final results of the Knights of Columbus War Bond Campaign, March 29 - April 28, show \$89,766,307 worth of Bonds and Stamps sold against a quota of \$25,000,000.

Forty-seven out of forty-nine Knights of Columbus jurisdictions exceeded their quotas. Council #305, Detroit, Michigan, led among the Councils for the greatest War Bond sales with a final record of \$8,121,225. Second place was awarded to Council #2463, Detroit, Michigan, with sales of \$4,816,550, and third place to San Antonio, Texas, with sales of \$2,064,100.

Total sales in the national B'nai B'rith War Bond campaign amounted to \$64,107,010. Outstanding among the B'nai B'rith Councils was the North Jersey Council which began with a quota of \$300,000 and showed final sales of \$4,528,662 in War Bonds. Paterson Lodge led the way with sales of \$2,200,000.

California State Elks with a membership of 50,000, are sponsoring a War Bond drive May 25 to June 15.

Inter-Racial Section

A representative of this section spoke recently at the A.M.E. Zion Conference and the Baptist Conference, Baltimore,

NATIONAL ORGANIZATIONS DIVISION

Inter-Racial Section (Continued)

Maryland, and at a meeting of the St. Catherine's A.M.E. Zion Church in New Rochelle, New York.

PRESS, RADIO AND ADVERTISING DIVISION

Radio Section

A report on the activities carried out to gain radio coverage for Secretary Morgenthau's announcement, released May 27th, on the consolidation of the Victory Fund Committee and the War Savings Staff into a single organization to sell War Bonds and direct War Loan Drives is attached. These included contacting all network and local D. C. commentators, radio news agencies, network news departments, and radio trade publications.

(Attachment #6)

Constance Bennett will be starred on the "Saturday Night Bondwagon", May 29th, 10:15 - 10:45 P.M. The script, "Day of Glory", written by Leonard Ide will be Miss Bennett's starring vehicle. Also featured on the program will be "A Marine's Prayer" written by Private First Class G. E. Lord of the U. S. Marine Corps and read by Walter Kinsella. Benno Rabinoff, noted violinist, will be musical soloist.

Advertising Section

All important national magazines were apportioned for personal contact to be solicited for orders for plates of the advertisements: "This man was taught not to drink water", "You'll always have tobacco in your old tobacco box!", "What kind of a house

PRESS, RADIO AND ADVERTISING DIVISIONAdvertising Section (Continued)

would you put here?", and "Want to own a new home by 1953?" These advertisements will be scheduled in June, July, August, and September issues. In addition, a large number of smaller advertisements are available.

Forty-six magazines have already filed their orders.

As the result of personal contact by the Advertising Section, about thirty farm papers have scheduled the Treasury ads designed for agricultural publications. A list of those already planning use of this material is attached. (Attachment #7)

Young & Rubicam, the agency assigned by the Advertising Council, is preparing the layouts and copy for the newspaper campaign up to the time of the Third War Loan Drive.

Attached are proofs of War Bond advertisements placed in leading national general magazines by Addressograph-Multigraph Corporation, The Electric Storage Battery Company, The Glenn L. Martin Company, Chris-Craft Corporation, Amity Leather Products Company, Rolfs, Harvel Watch Company, Tappan Stove Company, and International Silver Company. (Attachment #8)

During the week of May 17th we received 104 War Bond mentions and 7 complete ads in seven major weekly magazines. Attached is a list of the sponsoring companies and magazines in which the advertisements appeared. (Attachment #9)

Attached is a proof of the newspaper advertisement titled

PRESS, RADIO AND ADVERTISING DIVISION

Advertising Section (Continued)

"Missing In Action", contributed to the War Bond campaign by Plough, Inc. (Attachment #10)

Press Section

Release #336, dealing with competitive purchases of War Bonds by an English and an American city, and release #337, dealing with the sale of War Stamps and Bonds by newsboys, were sent out during the week. The latter was picked up by the wire services. (Attachment #11)

Another series of "Stars In Service" was released to dailies and weeklies. (Attachment #12)

A speech was prepared for Mr. Gamble.

Attached is the July newspaper advertising service furnished to its customers by Parrish and Phillips. It includes 28 ads with War Bond copy prominently featured. Combined circulation of the papers subscribing for this mat service is 20,000,000. (Attachment #13)

Proofs of two releases to the Negro press are attached. (Attachment #14)

Attached are tear sheets from the May issue of WOMAN'S DAY carrying two editorial mentions and two plugs, tear sheets from the June issue of TRUE STORY carrying two editorial mentions and two plugs, a tear sheet from the May issue of VOGUE carrying a War Bond box, a tear sheet from the May 22nd LIBERTY with an editorial

PRESS, RADIO AND ADVERTISING DIVISION

Press Section (Continued)

paragraph devoted to Bonds, tear sheets from the May 31st issue of LIFE carrying a War Bond mention in the lead of a two-page spread, and tear sheets from THIS WEEK, carrying editorial mentions. (Attachment #15)

OFFICE OF THE EXECUTIVE DIRECTOR

Promotional Research Section

Attached is the analysis of newspaper carrier sales as of May 27, 1943. (Attachment #16)

May 29, 1943
3:00 p.m. - New York City

Organization Plans

Conference -

Present: Messrs. Morgenthau, Burgess, Smith and Buffington.

1. Discussion of Sproul telegram which left an unfortunate impression. Telegram read as follows:

"Secretary of the Treasury has announced today future new organization for sale of Treasury securities which will mean disappearance of Victory Fund Committee as such. Meanwhile, as chairman of Victory Fund Committee I express to you sincere thanks for your help in two War Loan drives which have established a precedent and a procedure which go a long way towards assuring the successful financing of the war."

2. It was decided that any effect of this would be combatted by issuing a report after the New York Master Plan had been set. This would explain the function of the banks and of the Victory Fund Committee. It was suggested that this report go out of its way to explain what the banks had done in the last drive.

(Messrs. Patterson, Letchworth, Madden and Gamble entered the conference)

3. Mr. Morgenthau asked whether or not Perry Hall would be suitable as head of a special division to handle the banking and financial fraternity. Messrs. Madden, Letchworth and Patterson agreed that he was the best man for this particular job. Mr. Letchworth said he had picked good people Upstate, whom he had properly directed and inspired.
4. Gamble reminded the group that Perry Hall was being recommended for the job which would, in effect, be state administrator of special bank customer sales.
5. Morgenthau suggested that Perry Hall function only during drives to handle banks, bank customers, corporations, etc. He said that 52 weeks of the year labor groups, industry groups, etc., would work on E Bonds, and the banking contingent would come in on the special financing operations during the special bank drives.
6. Burgess suggested there would be three divisions to the war finance program: Bank Customers Division, Industry Division and Community Division. Under some circumstances, the latter two would be combined into one.
7. Buffington pointed out that rules would have to be set up to clarify whether specific industrialists would come under the jurisdiction of the bank customer group or under the regular War Finance Committee. In other words, whether these industrialists would report to Hall or Patterson in New York.

8. It was then suggested by Madden that the Patterson industry group would have to work with Perry Hall to take out of Hall's old group people who function very well in the county regions. These would now be switched to Patterson but should be maintained if they served well during the last drive. This would call for cooperation between Hall and Patterson.
9. Burgess then suggested that one problem to be met was the fact that insurance companies would have money between drives which they would like to invest. Accordingly, the 2-1/2s should be opened several times a year to insurance companies, rather than just during periodic drives. It was suggested that the Hall Committee could be used to do this, and then was redecided that this must be left with the Federal Reserve Group since it was specifically given to them in the announcement.
10. Burgess then dictated the specific function of the Banking and Investment Division, under Perry Hall, as follows:

"The work of the sale of bonds in each state would be divided into two or three divisions.

"One of these divisions would have charge of the sale of bonds through the banks, securities dealers and other financial institutions to their customers. This division would be known as the Banking and Investment Division."
11. Mr. Morgenthau was asked to clarify his conception of the state organization. He pointed out there would be a State Chairman, and under the State Chairman an Executive Officer. Reporting to the Executive Officer, would be the three divisions spoken of before - the Banking and Investment Division, the Industrial Division, and the Community Division.
12. This group was then adjourned to reconvene when Messrs. Hall, Payson, and Treiber arrived.

May 29, 1943
3:40 p.m. - New York City

Organization Plans

Conference -

Present: Messrs. Morgenthau, Burgess, Patterson, Letchworth, Madden, Payson, Treiber, Hall, Buffington, Gamble and Smith.

1. Mr. Morgenthau had explained to Hall before coming to the meeting, and he asked Burgess for further explanation.
2. Burgess explained that he had wanted the Federal Reserve System to take the responsibility for the War Bond Drive, but that the decision had been made and he was accepting it. He thought the state setup was very good. He said it was important that all should agree on the value of this arrangement. Burgess explained that there were three parts to the war financing operation, working through the banks, working through the industrial group, and working at community level. What is needed now is a good overall committee with members from all interested groups, including the old War Finance Committee. If such a group is set up, we can go ahead without losing impetus.
3. Hall asked Burgess if he didn't believe that the job the banks did was a good one. Burgess complimented them very highly and pointed out they don't do it that way any other place. It is a wonderful idea and we must keep it up. We must also do the rest of the financing job as well.
4. Hall said he wanted to think about taking the job. He wants to talk to Sproul and others. He will answer on Tuesday. He says he also wants to get more of the background, which he does not now have since he was on a trip during the past three weeks.
5. Patterson stated he would be very unhappy if anything stood in the way of Hall's taking this job. He has the best training and experience in this phase of the work. Letchworth said he felt the same way.
6. Gamble pointed out that the job Hall should take would account for 65% of the money. It is, therefore, very important. He said there would be a division in Washington under George Buffington to prepare tools, etc.
7. Hall asked whether the Federal Reserve Banks would come into the picture only for insurance companies, banks, dealers, etc. He said the Federal Reserve Banks were very important because they made possible turning over the names of customers by other banks when this was a radical move. Sproul put it over and "we must take off our hats to him". We cannot lose the support of the Federal Reserve Banks because they can make other banks play ball.
8. Morgenthau explained that we have not lost their support. They will cooperate completely but will not be responsible. We will get full cooperation from them. Supposing Hall takes the job and he has trouble with the National City Bank. He can call up and we will put the heat on. It is just as simple as that.

9. Hall said that takes care of that.
10. Burgess pointed out that Hall was thinking of window-dressing, and that Sproul should be on the Committee.
11. Patterson said that we certainly needed the prestige of the President of the Federal Reserve Bank.
12. Hall said he presumed that the Federal Reserve would function as now in connection with the mechanical requirements of the campaign, business machines, etc.
15. Gamble pointed out we were to have facilities in all these states, and if there were any exceptions the Federal Reserve would handle it.
14. Morgenthau pointed out that the Feds would continue offering their facilities because they are fiscal agents.
15. Patterson said that he and Hall could work out the details.

At this point, Messrs. Patterson, Letchworth, Madden, Payson, Treiber and Hall left the meeting. Messrs. Morgenthau, Burgess, Buffington, Gamble and Smith remained.

1. Burgess said it was important that Sproul be in the picture. He should be Honorary Chairman or something of equal importance. He pointed out that a substantial committee should be appointed because it would look as though the job were being handled from Sproul, who is very important in the community, to Patterson, who is not.
2. Buffington pointed out that Hall is patriotic and if you offer him the big job it will be embarrassing for him to turn it down.
3. Morgenthau asked why it would be more embarrassing to turn down the General Managership than the head of the division.
4. Buffington explained that the financial job would bring in 65% of the money, and if he is sufficiently important to be responsible for that, why not be responsible for all?
5. Burgess pointed out it makes a difference who is Executive Director, and when Morgenthau asked for suggestions Burgess suggested John Stevens.
6. Gamble said he would be a very good man.
7. Buffington said that would overcome much of the problem.
8. Burgess said it would work out well if you would put Perry Hall in as Executive Manager and pick good men to cover the other two divisions.

9. Gamble said he wouldn't object to putting Perry Hall in the big job but felt Stevens is a better man.
10. Burgess suggested they could put Hall in as Executive Manager and Payson could do the financial job, Madden the community job, and Stevens the payroll job.
11. Burgess said that Perry Hall's appointment to the big job would overcome the problems brought about by the Sproul telegram and other bad publicity. He suggested that Morgenthau offer Hall either post and assure him that the Committee would be properly made up to back him.
12. Morgenthau told Buffington to talk to Hall and put up the proposition. He then discussed the possible makeup of a committee and the following names were suggested: Harrison, Leffingwell, Baruch, Patton, Sproul, Dillon, Hillman and Dubinsky; also Aldrich. It was then suggested that Rockefeller be substituted for Aldrich.
13. Buffington asked Morgenthau if he would still be the one to appoint Madden, etc., even though they made Hall Executive Director. Morgenthau pointed out that it would be up to him to make the appointment.

MAY 29 1943

TO: **Adler, Chungking, China.**FROM: **Secretary of the Treasury.**

Reference is made to your cables of May 22, TF-122 and of May 12, TF-120.

Please discuss the following with Dr. Kung and the Stabilization Board:

1. The Treasury has been informed that the proposal of the Ministry of Finance to extend favorable treatment to consulates and embassies in connection with the conversion of foreign exchange into *sepi* for their expenditures provides that the foreign exchange which is received from such foreign consular and diplomatic bodies will not be credited to the account of the Stabilization Board of China, but instead will be put in a separate account with the Central Bank. The Treasury does not understand why special treatment is being accorded to these foreign exchange receipts and is disturbed that the Stabilization Board is not the ultimate recipient of such foreign exchange receipts.
2. In connection with the proposals being considered by the Ministry of Finance whereby foreign missionary, philanthropic and educational organizations would have their contributions for famine relief matched by the Government of China and would be granted the official rate plus 5%, the Treasury feels that any arrangement worked out should continue to keep the Stabilization Board as the recipient of foreign exchange receipts from remittances to foreign missionary, philanthropic and educational

- 2 -

organizations. The Treasury cannot see any reason why present arrangements between the Central Bank and the Stabilization Board regarding disposition of foreign exchange should be changed.

3. Please advise Treasury as to Dr. Eung's and Stabilization Board's views on the above matters.

IS/ats 3/20/43

MAY 29 1943

To: Adler, Chungking, China.

From: Secretary of the Treasury.

Reference is made to your cable of May 15,
TF-121.

The Treasury has no objection to the Board's
converting US\$1 million into fong with which to
purchase Chinese Government U. S. dollar backed
savings certificates with a maturity of one year.

ISF/cfo 5/25/43

BRITISH MOST SECRET
U.S. SECRET

1943 JUN 2 PM 1 43

OPTEL No. 178

TREASURY DEPARTMENT

Following is supplementary resume of operational events covering the period 22nd to 29th May, 1943.

1. NAVAL

A floating dock 400 feet long, capacity 10,000 tons, is reported to have left COPENHAGEN on 24th for NARVIK. Red, H.M. and Allied Submarines have sunk 5 small ships, damaged one 4,000 ton merchantman and bombed an airfield in CORSICA, BIZERTA, although badly damaged, is now partly usable. Three underground fuel tanks, total capacity 30,000 tons, appear sound. Deep berths for two large Cruisers are available alongside.

SUBMARINE WARFARE. Week ending 26th 56 attacks on U-boats excluding attacks by R.A.F. 12 promising attacks which include 3 by H.M. ships, one by United States Destroyer and 4 by aircraft from H.M. and U.S. Escort Carriers. One Japanese submarine believed sunk by United States Destroyers. No ship is known to have been sunk in North Atlantic week ending 26th though 3 convoys were shadowed. 121 ships in 4 ocean convoys arrived in Home Waters, two ships were sunk. Number of U-boats in North Atlantic believed temporarily reduced in consequence of casualties recently inflicted. 58 enemy ships sunk or captured during April, of which 42 totalling 102,000 tons in MEDITERRANEAN.

SHIPPING CASUALTIES. During the week 22nd-28th 5 ships reported to have been attacked by submarines. A small Canadian ship was shelled and sunk off the East coast of U.S.A., a Norwegian tanker torpedoed in Northwestern Approaches on 12th, a Greek ship torpedoed in the FREETOWN Area, a Dutch tanker in the South Atlantic, and a Panamanian tanker in the Pacific. A British ship sunk by aircraft off CAPE ST. VINCENT and a British ship bombed in raid on SUNDERLAND and submerged in the River WEAR. The United States ship reported overdue at FREMANTLE has arrived and a British ship is overdue at BOSTON.

TRADE. Estimated that by 15th April 389,000 tons non-tanker and 104,000 tons tanker French shipping transferred to enemy ports and total tonnage remaining in Southern France reduced to 315,000 tons. Imports in convoy into United Kingdom week ending 22nd - 513,000 tons including 216,000 oil.

2. MILITARY

BURMA. With approach of monsoon Japanese appear to be thinning out in ARAKAN. Enemy believed to be suffering severely from dysentery and malaria and are expected to keep only a minimum number along the main DAW-BOTHIDAUNG line, withdrawing remainder to AKYAB. In the CHIN HILLS, enemy force estimated up to one Battalion advanced 12 miles westward from KALEMYO, probably in attempt to deepen their positions in this area before the rains.

3. AIR OPERATIONS

WESTERN FRONT. Bomber Command flew 2,295 operational sorties during the week. 91 aircraft missing. 3 very heavy attacks on GERMANY.

DORTMUND. Very successful attack, results of which may well exceed those of previous attack on this town which is now known to have been one of the most successful of the war.

DUSSELDORF. Successful attack despite bad weather. Although concentration not comparable to that of DORTMUND raid, considerable damage to town and neighbourhood probable.

ESSEN. Results not yet known but appear promising.

ENEMY. Fifty nine enemy aircraft operated by day in attacks on BOURNEMOUTH, HASTINGS, BEXHILL, BRIGHTON and FOLKESTONE. By night about 20 aircraft operated in TYNE-TEES area. Enemy lost 14 aircraft by day and 2 at night. Our losses nil.

ANTI-SUB OPERATIONS. During the past 6 weeks aircraft of Coastal Command have made record number of attacks on U-boats, many of which were promising. During week ending 27th, out of 44 U-boats sighted by aircraft of Coastal Command, 23 were attacked.

ITALY. Raids on airfields and ports in toe of ITALY.

SICILY. Total of 544 tons on MESSINA. Heavy attacks on airfields.

SARDINIA. Heavy raids on airfields and harbours, many aircraft destroyed or damaged on the ground. Considerable damage to shipping and industrial installations.

RUSSIA. Russian air activity greatest in south between KURSK and KUBAN. German long range bombers continued their attacks on Russian bases, one particularly heavy raid on KURSK reported.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF ALLIED AIR ATTACKS FROM UNITED KINGDOM BASES

FLENSBURG. United States day attack 19th. Considerable damage to the new shipyards of FLENSBURGER SCHIFFSBERU. 4 submarine slips damaged each by one or two direct hits. Heavy damage also in old shipyard now used for fitting out U-boats. Barracks also suffered.

HELIGOLAND. United States day attack 15th. 7 barrack blocks damaged by H.E. Navy Signal Station destroyed.

RUHR DAMS. Effect on communications. Damage severe, much reconstruction work necessary. Largest item Hordecke Viaduct. Damage to embankments and repair of railway track will mean heavy call on labour and material traffic. Dislocation must be considerable.

KIEL. United States day raid 14th. In addition to damage in Germania Yard already reported - direct hit on one 1,600 ton U-boat and probable damage to 5 of 740 tons (2 of which have capsized) and 2 of 500 tons. A floating dock partially submerged and a floating workshop capsized. Railway communications in docks suffered severely and also residential property adjoining shipyards.

BORDEAUX. Now reported that as result of damage to lock gate 5 Italian and 6 German submarines are trapped in Basin for at least several days. They are in their pens and can only leave at high tide and then with difficulty. Fatal casualties among German and Italian personnel reported heavy.

SEA MINING. Casualties reported between 25th March and 23rd May number 18 ships, majority in great and little belts and Kattegat. Although most of them are under 1,000 tons, they include Naval Auxiliary craft, minesweepers and tugs. Exclusive of liner GNEISENAU, 18,000 tons, mined in April already reported.

5. HOME SECURITY

Estimated civilian casualties week ending 26th. Killed and missing 201, seriously wounded 303, additional service personnel killed - BOURNEMOUTH 46, HASTINGS 25.

BRITISH MOST SECRET 13 MAY 71 AM 10 21
U.S. SECRET.

TREASURY DEPARTMENT

OPTEL No. 175.

Information received up to 7 a.m. 29th May.

1. NAVAL.

HOME WATERS: 28th/29th. Our light forces engaged 4 enemy trawlers in channel and set two on fire. Similar forces in co-operation with Naval Albacores attacked 8 E-boats off Newhaven and claim hits. 12 more E-boats operated in Lyme Bay probably minelaying.

MEDITERRANEAN. The 2 convoys referred to in OPTEL 172 have reached Malta and Alex.

2. AIR OPERATIONS.

WESTERN FRONT. 27th/28th. 1371 tons of bombs dropped on Essen. 28th. Coke-ovens at Zeebrugge bombed by 12 escorted Venturas (B.34). 1 Ventura and 1 Spitfire missing.

28th/29th. Aircraft despatched Seaminging 34, anti shipping 10, Intruders 5, Leaflets 5. Between 2030 hours and 0430 hours Albacores attacked R boats off Cherbourg; destroyed 6 damaged 3.

SARDINIA. 26th. Fighter bombers attacked Villacidro airfield hitting hangars and barracks and also harbours at Golfo Aranci and Porto Ponte Romano hitting quays and power station and setting fire to a large ship and oil installations.

SICILY. 26th. 25 heavy bombers attacked Comiso airfield and 24 escorted medium bombers attacked Mascari airfield.

AEGEAN. 26th. Beaufighters sank 1 sailing ship and probably sank another off South-east coast of Greece.

RUSSIA. 27th/28th. Enemy railway junctions South and South-west of Smolensk were bombed and several trains set on fire.

OFFICE
SECRETARY OF TREASURY

1943 MAY 31 PM 12 18
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TREASURY DEPARTMENT

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 176

Information received up to 7 a.m., 30th May, 1943

1. NAVAL

One of H.M. Submarines sank a Tanker off MONTE CARLO on the 15th. One torpedo struck the beach and damaged the CASINO. Another of H.M. Submarines sank a large tug Northwest of MESSINA on the 14th and a 4,000 ton ship off REGGIO on the 21st. On the same day, another of H.M. Submarines sank a Trawler in the Mediterranean in the entrance to AUGUSTA HARBOUR.

2. MILITARY.

BURMA. CHIN HILLS. 26th. After a fierce hand-to-hand struggle in which the Japanese suffered heavily, our Forces in the evening drove them from their forward positions, a Hill Feature 4 miles East of FORT WHITE.

3. AIR OPERATIONS

WESTERN FRONT. 29th. The U-Boat bases at ST. NAZAIRE and LA PALlice were attacked by 139 Fortresses and 38 Liberators respectively. A total of 351 tons of high explosives was dropped in good weather conditions with results described as 'good'. As a diversion 53 Fortresses dropped 118 tons of high explosive in a 'fair' attack on the Naval Stores Depot at RENNES. Escorted Venturas and Typhoon Bombers attacked Airfields at CAEN and MAUPERTUS. Enemy casualties in the air; 17, 18, 12. 14 Fortresses missing, 8 of them from ST. NAZAIRE and 6 from RENNES. 29th/30th. Aircraft despatched: UPPERTAL - 719 (33 missing), Intruders - 18, Leaflets - 3, Anti-shipping - 3. UPPERTAL population 411,000 is about 15 miles East of DUSSELDORF and was formed in 1929 by amalgamation of ELBERFELD and BARREN. Preliminary reports indicate successful attack in good weather. Out of 6 enemy aircraft which operated against this country one was destroyed by a night-Fighter.

SARDINIA. 27th. 67 escorted medium bombers attacked VILLACIDRO and DECIMO-MANNU Airfields. 13 enemy aircraft were destroyed in the air, in addition to many destroyed or damaged on the ground.

ITALY. 28th. 37 Liberators bombed FOGGIA Airfield.

~~NOT TO BE RE-TRANSMITTED~~OFFICE
SECRETARY OF TREASURYCOPY NO. 13BRITISH MOST SECRET
U.S. SECRET

1943 JUN 1 PM 12 52

OPTEL NO. 177

TREASURY DEPARTMENT

Information received up to 7 a.m., 1943.

1. NAVAL

One of H.M. Submarines failed to surface after exercise off Southwest SCOTLAND on 30th. Tender with divers is standing by. Minelaying is suspected off PLYMOUTH, where twelve E-boats were operating during last night. Surface craft failed to make contact and although aircraft dropped bombs no hits were claimed.

2. AIR OPERATIONS

WESTERN FRONT. 28th/29th. RUPPERTAL 1822 tons dropped including 9 8,000 pound, 262 4,000 pound and 60 2,000 pound H.E. Attack lasted one hour. Weather fine, no cloud, good visibility. Marker bombs extremely accurate, resulting in concentrated raid on town centre. Huge mass of fires with smoke to 15,000 feet. Ground defences took some time to work up and were never more than moderate. 30th. 800 ton ship was set on fire by Typhoons off FLUSHING. Spitfires destroyed four enemy fighters during a sweep over CAEN. One Spitfire missing. Steel works at RONDEVILLE were bombed by Typhoon. 20 enemy aircraft attacked TORQUAY. A.A. fire brought down 3 and Typhoon a fourth. 12 aircraft raided the FRINTON AREA. 2 were destroyed. 30th/31st. Aircraft despatched: Minelaying - 27, Leaflets - 14, Intruders - 4, Anti-shiping - 5.

ITALY. 28th. 92 Fortresses dropped 244 tons on LEGHORN 1 large and 2 medium ships, oil tanks, dock installations and the railway centre were hit.

SARDINIA. 27th/28th. Wellingtons dropped 22 tons on VILLACIDRO, ELMAS, and GEOINOMANNU Airfields.

SICILY. 28th. 140 medium and fighter bombers attacked airfield dispersal areas.

PANTELLERIA. 28th. 16 fighter bombers raided the airfield and harbour.

MEDITERRANEAN AREA. 28th. Casualties reported during offensive operations: Enemy - 19, 6, 8. Allied - 5 missing.

TUNISIA. 27th/28th. 15 enemy aircraft attacked BIZERIA. 5 were destroyed. 5 aircraft ineffectively attacked SOUSSE.

INDIA. 29th. 15 Japanese bombers escorted by 20 fighters attacked CHITTAGONG, 1 aircraft destroyed and 2 damaged on the airfield. Hurricanes intercepted. Enemy casualties - 4, 4, 3. Cors - 3 damaged.

3. HOME SECURITY

TORQUAY. 30th. At 1440 hours bombs were dropped. 32 persons reported killed so far.

FRINTON. Bombs dropped in the evening causing 4 fatal casualties. Late News. Aircraft sank a U-boat Southwest of BARCELONA on 29th. Several survivors seen in water after attack.

May 30, 1945
12:00 noon - Newark, New Jersey

CONFERENCE -

PRESENT: Secretary Morgenthau, Mr. Gamble, Mr. Buffington, Mr. Smith, Mr. Burgess, and Messrs. Franklin D'Olier, John Manning and Kerby Fisk

1. Mr. Gamble had discussed the banking and investment committee with this group. D'Olier said it would present no problems whatever. He said every one in New Jersey would come along without friction. He said Corbin was very anxious to go along in spite of the note from Sproul which he interpreted as notice of his suspension.
2. D'Olier assured the Secretary that all that was necessary was for him to tell them what to do and how to do it, and "then you can forget about New Jersey".
3. Mr. Morgenthau explained what he was trying to do is to amalgamate the two groups under one man in charge. He suggested that D'Olier forget all labels, drop the War Savings and Victory Fund names, and have just one group that will do the job. He explained that we have one job lasting 52 weeks a year on payroll savings, etc., and three drives a year to raise the necessary money, and for that purpose there should be a campaign committee. He said the main thing is to get some one who understands what we have in mind, and then he can be free to pick people from both the old committees. He explained that aside from the drives there might be special times for insurance companies to invest idle funds.
4. Mr. D'Olier said that would be a very excellent idea.
5. Morgenthau said when he got a breathing spell he wanted to sit down with people like D'Olier and decide such things as times in between drives for insurance companies to invest funds, etc. He said he wanted to work with the financial people and what he was looking for was cooperation. The way it stands now, he pointed out, the Federal Reserve people are committed to give full support and aid, but do not have the responsibility for raising the money. If they fail to give full support or aid, any one of the 48 state chairman can call him, and the matter will be taken care of promptly.

Mr. Morgenthau said the principal difference between the new organization and the last one was that there would be one chief in each state, and there would be 48 state chairmen responsible instead of 12 Federal Reserve Presidents.
6. Gamble pointed out that during the drive Mr. D'Olier would have the help of the other two divisions of the war financing operation.

- 7. D'Olier asked when the next drive would be, and pointed out that he was also organizing the War Relief Fund in New Jersey.
- 8. Mr. Morgenthau pointed out that there would be a meeting Thursday in Washington with the ABA Committee to decide on a definite time. He thought it would be settled for about September 13th or 14th.
- 9. D'Olier pointed out that in setting up an organization it might be necessary to have paid employees. He wanted to know where the money was coming from.
- 10. Gamble said the present paid staff would be transferred to the new single organization and, therefore, payrolls would be available.
- 11. D'Olier pointed out that Mr. Manning was doing a very excellent job and that he would be very glad to continue to work with him.
- 12. Manning then asked what he should do - whether to wait for a release from Washington or go to work immediately setting up the new committee.
- 13. Morgenthau delayed answering that question to make sure he had presented the proper picture. He asked Burgess if his explanation had been complete.
- 14. Burgess said that it was complete except that he didn't emphasize that the big job at the present time is to get down into the working groups. Great emphasis is needed here, but the banks are pretty well set.
- 15. D'Olier said that they realized that fully, and that they had originally tied in the A. F. of L. and the CIO in their committee, and would see to it that this would be done immediately again.
- 16. Morgenthau then pointed out that this was very important because he was more interested in the kind of money that he got than the amount. Not only for inflationary purposes but for the emotional factor involved in the money invested in bonds, it is important to reach the people whom the A. F. of L. and CIO are closest to.
- 17. D'Olier then said labor was the backbone of war finance in his estimation.
- 18. Morgenthau then suggested that we make New Jersey the sample setup, and write a story about the New Jersey operation. It was decided that there would be a luncheon on Wednesday noon, at which time the news would be made public, and every effort would be made to spread the story of New Jersey's organization across the country. It was later suggested that copies of the story be mailed to all the banks in the country.

Burgess pointed out that New York might object to New Jersey's getting this play. He pointed out that New York financial men might feel it was a slap in the face.

Morgenthau suggested that everybody think about it for a little while, but in the meantime we should go ahead and plan the Wednesday operation. Gamble, Buffington and Smith will go to New Jersey Monday noon to lay the groundwork.

At this point, Mr. Morgenthau asked Burgess, Gamble, Buffington and Smith into a separate conference, and the matter of Perry Hall was discussed. Mr. Morgenthau said there were two ways to approach Hall - the first was to order him in the name of the Commander-in-Chief to take the job, and the other was to let him do as he wished and if he refused to go along without him. He asked the advice of the group and they agreed no pressure should be put on Hall for various reasons. He then suggested that Hall see him late Sunday afternoon, if possible, and be ready to answer whether or not he would go along on one of the two jobs offered. Mr. Buffington made the arrangements with Mr. Hall.

Returning to the conference room, the New Jersey group was dismissed and the rest went to lunch.

Miss Chauncey:

Mr. Morgenthau wants to be sure that Mr. Sullivan approves the first attachment on the letter to the President before it goes out. He also wants to have copies of this correspondence given to Messrs. Paul, Helvering and Sullivan.

M. K. McHugh



THE SECRETARY OF THE TREASURY
WASHINGTON
May 31, 1943

Dear Miss Chauncey:

I am sending you herewith a very important document for the President. Will you please contact either Miss Tully or Mrs. Brady and ask them to see that this letter is put into the hands of the President just as soon as he returns to Washington.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. M. Truman".

Miss Nell M. Chauncey,
Room 285,
Treasury Department,
Washington, D.C.

DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

May 31, 1948 .

*See final as
sent to Pres
on 6/2 but
dated 5/31*

My dear Mr. President:

As a result of my conversation with you last week, I am going on the assumption that you are going to sign the Bill H.R. 2570, "The Current Tax Payment Act of 1948". With this in mind, I am sending you herewith a memorandum giving you an outline of the mechanical problems which we have to face in the Bureau of Internal Revenue to get ready to put into effect the provisions contained in H.R. 2570.

I am also sending you a draft of a statement to be made by you when you sign H.R. 2570. If this draft is not acceptable to you, we would be very glad to assist in making any changes that you deem advisable.

In closing, may I say that I hope you will find it convenient to sign this bill promptly as we need all the time possible to prepare to put the law into effect.

Sincerely yours,

Henry H. Rogers, Jr.

The President,

The White House.

Memorandum for the President:

Under H. R. 2570, the "Current Tax Payment Act of 1943," the effective date for commencement of withholding of income and Victory tax from wages is July 1, 1943. Before employers can commence withholding they must make necessary changes in their payroll systems and secure exemption certificates from their employees which will serve as the basis for measuring the amount of withholding. Exemption certificate forms are now in process of being printed. The tasks of distributing these forms to the Collectors of Internal Revenue, who will then distribute them to all employers, and of having them filled out by the employees and returned to the employers, will require considerable effort and time. Therefore, it is eminently desirable, if the bill is

- 2 -

to be approved, that it be signed as soon after its enactment by the Congress as practicable. However, if the bill is to become law without signature, I should appreciate being advised accordingly, so that no time may be lost.

BMB:hdr 5-28-43

Draft of statement for the President
on the revenue bill

I have received from the Congress H. R. 2570. This bill provides a system of current payment for the individual income tax and as a transition measure cancels 75 percent of a year's taxes. In order that the collection at source provided in the bill may go into effect July 1, 1943, I am announcing at this time that I shall allow the bill to become law without my signature.

I am allowing the bill to become law because of the importance of the current payment methods which it introduces into our tax system. You will recall that in my January Budget Message I asked that the income tax be placed as nearly as possible on a pay-as-you-go basis. The most important current payment method is that of collection at source of the great bulk of the individual income tax through the withholding of tax on wages and salaries--a method which has been advocated by the Treasury ever since 1941. This method of collection does not increase anyone's tax, but it provides for more convenient

- 2 -

and earlier payment. The methods provided for current payment of taxes on income not subject to collection at the source are also valuable modifications of our present system since they permit current collection of taxes on such income.

I am, however, not signing this bill because the procedure by which transition to current collection is achieved will result in a grossly inequitable distribution of the war tax burden. In essential features this bill resembles the Senate bill. On May 17, 1943, when the Senate bill was awaiting action by the House, I addressed identical letters to the Chairman of the Senate Finance Committee and the Chairman of the Committee on Ways and Means, stating with respect to the Senate bill that the "cancellation would result in a highly inequitable distribution of the cost of the war and in an unjust and discriminatory enrichment of thousands of taxpayers in the higher income groups."

The bill sent to me cancels three-fourths of a year's taxes instead of a full year's taxes for persons with a tax liability in excess of \$50 for 1942. It retains the

- 3 -

major inequities of the Senate bill. It gives a person with a steady income of \$1,000,000 the equivalent of three years' income after taxes, and a person with an income of \$100,000 the equivalent of fifteen months' income after taxes. On the other hand, the person with an income of \$2,000 receives a cancellation of taxes amounting to less than three weeks' income after taxes. This inequity is intensified by the necessity of large increases in taxes which will, in the nature of the case, have to come very largely from the lower and middle income brackets. The financial benefits of cancellation will thus be quickly offset for the mass of the people, while the persons in the higher income brackets will receive the benefits of cancellation with no equivalent offsetting increase of rates.

It is to be regretted that the formulation and passage of this bill has involved so great an amount of time and energy. Even more regrettable is the fact that numerous taxpayers must have gained the impression that this year of war, 1943--when we shall spend \$ billion--when

- 4 -

existing taxes will yield only one-third as much as the expenditures--when more money is pouring into the pockets of our citizens than in any year of our history--that this is a year when taxes are cancelled rather than immensely increased.

This is a tax remission bill, not a revenue bill. Granted that for two years Treasury receipts will be increased by collection of a portion of the 1942 tax already owed to the Government. These increased receipts are, however, merely collection of an existing debt, and are accompanied by the cancellation of a far greater amount of that debt. The increased payments over the next two years must not be accepted as a substitute for tax increases. This is particularly important since statements have been made that the collection of the uncanceled portion of the 1942 tax would take the place of rate increases and that there will be no rate increases until these back taxes have been paid. I cannot accept this interpretation. The collection of unforgiven 1942 taxes does not constitute rate increases but, as I have pointed out, is the collection

- 5 -

of debts already owed the Government, for which the taxpayer has been handsomely rewarded with cancellation of the great bulk of the tax. Moreover, many persons whose incomes are increasing will make relatively little or no increased payment to Government since their 1942 taxable income was zero, or small in relation to their current income. Rate increases must look to current income, and there must be substantial rate increases in the individual income tax.

In my Budget Message of January 1943, I asked Congress for an additional \$16 billion. A new revenue bill of this magnitude is even more important today than it was then. Much time has elapsed since then; tax increases cannot be put into operation as quickly as I contemplated in January. Moreover, the expansion of excess purchasing power has continued to increase. Its threat to prices, orderly markets, and a sound economy becomes increasingly serious day by day. In January the threat may have seemed distant and speculative to some people. Today its imminent danger can be denied by no one.

- 6 -

Accordingly, having placed in the law a pay-as-you-go system of tax collection, the important thing now is for us to proceed at once, without delay, to the consideration of a measure to raise the largest amount of new revenue ever raised by a Congress in our history. Annual war expenditures of \$100 billion are not adequately financed when only one-third is covered by current tax revenues. The results for both the war and the post-war periods would be serious.

I, accordingly, most strongly urge that all personal and partisan antagonisms be set aside and that the appropriate Committees of Congress begin immediately considering a wartime revenue measure of a magnitude suited to the critical needs of these times.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 31 1949

TO Secretary Morgenthau
FROM Randolph Paul

You will recall that last February you approved our issuance of a directive license to the French American Banking Corporation in New York to transfer from an account of the French Government the sum of \$1,050,000 to be paid to the American Red Cross for the purpose of financing the purchase and shipment of 300,000 parcels of food to be sent to French prisoners of war.

We are now advised by the Department of State that the aforementioned shipments were made in March, April and May, thereby virtually completing that program. The State Department recommends, therefore, that we issue a new directive license for the purpose of financing the shipment of an additional 300,000 food parcels for another 3 month period. We are advised that these food parcels have and will continue to be distributed only to French prisoners of war who are confined in base camps and who are not performing work of a nature prohibited by the Geneva Convention of 1929.

Under the circumstances, we issued the necessary directive to the French American Banking Corporation for the transfer of the additional sum of \$1,050,000 from the accounts of the French Government for the purpose of financing this program.



May 31, 1943.

Dear Mr. Ezekiel:

In the absence of the Secretary, who is away from Washington, I am acknowledging your letter of May 27, which enclosed a memorandum and various charts on the inflation situation.

I shall be very glad to bring this material to Mr. Morgenthau's attention as soon as he returns to the office, and I know he would wish me to thank you for your courtesy in forwarding it for his reading.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Mordecai Ezekiel,
Economic Adviser to the Secretary,
Department of Agriculture,
Washington, D. C.

*noted by
K. White*

KP/dbs



DEPARTMENT OF AGRICULTURE
WASHINGTON

May 27, 1943

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

Dear Mr. Secretary:

I enjoyed very much sitting in on your weekly movie showing last evening. Some other time when you have something equally as choice to see, I am sure Mrs. Ezekiel would welcome the opportunity to sit in also, if you have room to spare.

For your personal information, I am enclosing a copy of a memorandum on the inflation situation, which I recently prepared for Secretary Wickard and which I believe he is sending on to Mr. Byrnes. You may be particularly interested in the first page summary of the situation as a whole. If you have time I would be glad to have an opportunity to come over and discuss the matter with you and the things that might be done now to more effectually check the rising flood of excess buying power.

Sincerely yours,

Mordecai Ezekiel

Mordecai Ezekiel
Economic Adviser to
the Secretary

Enclosure



DEPARTMENT OF AGRICULTURE
WASHINGTON

May 27, 1943

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The Secretary of the Treasury
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Sincerely yours,

Mordecai Ezekiel

Mordecai Ezekiel
Economic Adviser to
the Secretary

Enclosure

SECRETARY OF AGRICULTURE
WASHINGTON, D. C.
MAY 28 1943



DEPARTMENT OF AGRICULTURE
WASHINGTON

May 27, 1943

H. C. C.

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The Secretary of the Treasury
Washington, D. C.

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Sincerely yours,

Mordecai Ezekiel

Mordecai Ezekiel
Economic Adviser to
the Secretary

Enclosure

PRICE INFLATION: SITUATION AND PROPOSED ACTION

Summary

- 1. The U. S. has been less successful than the U. K., Canada, or Germany in controlling inflation. Since 1941 our wholesale prices, retail food prices, living costs, and industrial wages have risen far more rapidly than in other countries. Our farm prices and incomes and industrial profits have risen faster than other prices.
- 2. Our peace-time ideas of income parity were based upon maintaining equality of buying power as prices rose so that the various groups in the country could get a fair share of the goods and services produced. Under war conditions civilians must produce more but consume less. The peace-time standards of parity no longer are applicable; efforts to maintain them aggravate the inflation.
- 3. Price controls and current rationing schemes have been insufficient to dam back excessive buying power. Taxes and voluntary savings have absorbed much of the increased income but enough remains to put significantly large inflationary pressures on prices and limit the effectiveness of the controls.
- 4. To check the inflationary pressure, another ten billions of 1943 income over and above currently expected taxes and savings must be removed. Further taxes to this extent would be very heavy. Forced savings might cut sharply into the large and growing voluntary savings, so heavy forced savings rates would be needed if they were used. Still greater increases in voluntary savings seem unlikely. Subsidizing retail food prices helps to check wage demands, but aggravates the surplus of disposable funds.

The final alternative is to check wages and prices. The effectiveness of this procedure might be increased by extending rationing further. If all scarce goods and services are rationed, then each consumer will know his or her fair share of the limited goods available. Prices could be frozen so that these quantities could be purchased by all workers under the existing income structure. At the same time a new wartime parity concept might be publicized by O.W.I. It would be equality for each individual, farmer, worker and businessman, to share the limited goods available - "We share what we have." The resistance of farmers and workers to the freezing of prices and wages would be reduced if they can be made to see both in word and in fact, that their power to purchase the things they need is determined by ration stamps and ration points rather than by income received.

We must have, along with this positive check on further increase in price levels, increases in taxes or forced savings sufficient to absorb the present surplus funds.

- 5. Inflation disrupts relations between the various groups in the nation. Eventually it leads to deflation which, if permitted to occur depresses production, employment, and income. Extreme inflation can hamper private initiative, weaken capitalism, and make a just and lasting peace impossible.

PRICE INFLATION; SITUATION AND PROPOSED ACTION

1. The U. S. Least Successful in Controlling Inflation.

All major combatants have attempted to prevent price inflation. They are aware how inflation last war hindered the fight and disrupted the peace. Of the major combatants, the U. S. has been least successful. This is revealed in Figures 1 to 4, which review the pertinent figures, so far as available.

Wholesale prices (Figure 1) advanced sharply in England after they depreciated their exchange rate. Since January 1941, U. K. wholesale prices advanced only slowly. U. S. wholesale prices have increased twice as rapidly since 1940 as prices in the three other countries shown (U. K., Germany, and Canada). Russian and Italian data are not available. 1/

Retail food prices (Figure 2) have advanced more rapidly and continuously in the U. S. than in any of the other countries, and are now higher than in the other three, compared to the pre-war averages. The low German prices do not portray their short rations of meat, fats, and other essential foods. The stability of U. K. retail food prices since 1940 is in marked contrast to the upward trend in their wholesale price level, and reflects the effectiveness of their policy of subsidizing food prices.

Costs of living (Figure 3) are higher in the U. K. than elsewhere, but have been stabilized since mid - 1941. During the last two years, U. S. living costs have been rising at a rate more than twice as fast as in the other countries, and this rate of rise has slowed down only slightly. The rise in our cost of living, during the past year, is due almost entirely to the continued rise in food prices.

Industrial wages (Figure 4) have risen faster and farther in the U. S. than in the other countries, so far as measurements are available. At the end of 1942, wages had advanced about 50% more in the U. S. than in the U. K. and Canada. 2/

Farm prices and farmers' income in the U. S. have advanced even more rapidly than wage rates, as compared to the 1935 - 1939 averages. The data

1/ Japan had inflated some before 1939. Her wholesale prices since then about parallel Canada's on a higher level, but advancing less rapidly than ours.

2/ The data for the U. S. are earnings per hour for the other countries, earnings per week. Earnings per week in the U. S. and probably in the other countries also, have advanced more than per hour, due to increased hours per week. Earnings per week of U. S. factory workers are two-thirds higher than pre-war, an increase three times as great as in earnings per week in the U. K.

are as follows:

Farm Prices and Farm Income

	1935 - '39	1942	April 1943
Farm prices	100	148	175
Farm income, excluding government payments.	100	193	xx
Farm income, including government payments.	100	190	xx

With cash farm income nearly doubled, and with many farm expenses (taxes, interest, etc.) increased much less rapidly, farmers' net income has made even more marked an increase. For 1943, farm income will be 50 percent above parity income.

Industrial profits (Figure 5), even after taxes, have risen far more rapidly in the U. S. than in England, and apparently than in Canada. (Data for other countries not available.) Dividends, however, have risen relatively less than profits, being up 16 percent from 1939 to 1941 and declining subsequently. Canada, on the contrary, shows no rise at all in dividends during the war, and apparently the same situation prevails in England. Profits remained as corporate surpluses, and not dispersed as dividends, have no immediate effect on the demands for goods.

2. Parity of Purchasing Power Is Not Possible Under War Conditions.

Farmers, workers, and business men have been holding on thus far to peace-time economic ideas. The parity concept for farmers says that farm prices should rise as fast as do the costs of things that farmers buy. The cost-of-living concept for wages says that industrial wages should rise at least as fast as do living costs, or even faster when workers' productivity rises. The boom profits habit of business says that profits should go up faster than production in times of increasing and high activity. All of these ideas had sound arguments and facts to support them in time of peace. Some of them were definitely crystallized in legislative statutes and collective bargaining habit patterns, and in over-time provisions and agreements.

In time of war our increased production goes into armaments and bottles, and into food for our allies. From 1939 to 1943, the amount of goods and services available for consumers to buy has increased only 6 billion dollars (measured in 1941 dollars) whereas, income payments to consumers increased 70 billions (Figure 6). Eventually, the goods available for civilians to buy decline despite the increases in total production. From 1941 to 1943, the amount of things available for consumers has declined by 2 billions, while the

dollars available to buy goods has increased by almost fifty billions. Production of goods and services for consumers will be 10 billions less in 1943 than in 1941, measured in 1941 dollars (the differences from changes in goods available are due to inventory changes). Even though the total quantity of goods they are producing has more than doubled since the start of the war, civilians, farmers, and city people alike, must learn to get along with less and less for their own consumption. They must make more and consume less. That is their war sacrifice - an infinitely smaller sacrifice than that made by those who are doing the actual fighting, in interruption to careers, and loss of limbs or lives.

The very fact that civilians must get along with less goods means that they cannot maintain the buying power of their incomes - for parity of income means that buying power rises with what they produce or earn. It is the attempt to hang on to the peace-time parity concepts of income and wage and profit payments, in the face of the shrinking quantities of goods, which has fed the inflationary race between prices, wages, and profits. Unless this race is checked, inflationary rises seem likely to continue.

3. Price Control and Voluntary Savings are not Preventing Inflation.

Inflation has not been fully controlled thus far by price regulation, or by price controls and rationing. So long as spendable income is greatly in excess of purchasable commodities, evasions, black markets and other changes limit the effectiveness of controls, even under penalties far more onerous than we now employ. It seems as if the rising flood of money were being swept back with ineffectual brooms.

The extent of the various methods employed to date are charted in Figure 7. As shown on the right side of this chart, the incomes paid out to individuals increased from 71 billions in 1941 to 140 billions estimated for 1943. Expenditures for consumption from these incomes have been reduced first, by taxes, and then secondly, by voluntary savings. These two deductions together increased from 3.2 billions in 1939 to an estimated 50 billions in 1943. In consequence, the income spent by consumers, as shown in the second bar from the right, increased from only 61.7 billions in 1939 to an estimated 90 billions in 1943. The amounts of money spent (as shown in the right hand column) however, rose much faster than the quantities of goods and services available (as charted in the left hand column). In consequence, the average prices paid for these goods rose to balance. This rise in the cost of living is shown by the horizontal bar, second from the left.

The available goods and services, multiplied by the rising prices, were sold to consumers for the current dollar amounts shown in the third bar from the left. Value of sales are thus equal to consumers expendable income. (In making these estimates, the cost of living in 1943 is computed by assuming it will rise by the same rate in 1943 as in 1942.)

It is clear from Figure 7 that despite the great increases in taxes and

voluntary savings, expendable incomes thus far in the war have risen beyond our ability to satisfy them with goods. The rise in prices and living costs is in part the result and in part the cause. Rising prices tend to make fixed-income families reduce their savings. Even more important, rising prices lead to demands from workers for higher wages, and from farmers for higher farm prices, with resultant higher farm and worker incomes. Enlarged expendable income is thus in part a consequence of previous price advances, but in turn produces an inflationary pressure for still higher prices.

4. Idea of Action Now Available.

The policies followed to date have delayed and lessened the inflationary movements, but have not completely checked them. If the inflation is to be really checked, the following methods are available, alone or in combination:

- (1) Still higher taxes on individuals.
- (2) Forced savings in addition to taxes.
- (3) Further increases in voluntary savings.
- (4) Subsidies to consumers' goods.
- (5) Altered policies on farm prices, industrial wages, and profits, to check or moderate the further growth in income.

(1) The data shown in Figure 7 indicate that if the cost of living were to be held at the 1942 levels, ten billions more would have to be removed from incomes in 1943, in addition to the estimated taxes and voluntary savings. Preliminary guesses for 1944 suggest still larger excess buying power that year, even with the most recently proposed tax rates. Once the proposed 20 percent deduction from incomes becomes effective, the net amount of personal taxes collected may exceed the Treasury estimate. That increase seems unlikely, however, to be sufficient to cover the entire 10 billions needed.

(2) If forced savings could be used to withdraw this additional ten billion dollars without present voluntary savings being affected, that would involve an average forced saving levy of only 7 percent (in addition to the present Victory Tax). It is very doubtful, however, whether all of present voluntary savings would be continued if forced savings were required. If forced savings tended to replace voluntary savings, a forced saving rate up to possibly 15 to 20 percent might be required. Since upper bracket incomes do not have enough margin left after income taxes to cover such rates of forced savings, still higher rates of forced savings in lower brackets would be required. Forced savings may therefore be of doubtful value as aids to the existing situation. Even so, they may eventually have to be adopted, as the only sure way of getting universal participation in the necessary saving, and as a more acceptable method than further increases in income taxes. Forced savings also would be less likely to lead to demands for higher wages than increases in income taxes. Since higher taxes come partly out of savings, it would take more than 10 billions increase in taxes to reduce expendable funds by 10 billions. Taxes to curtail expenditures, like the proposed expenditure tax, would be more effective as a means of reducing inflationary pressures.

(3) If voluntary savings could be increased in 1943, above the amounts already estimated, that would help to absorb the remaining excess funds. During the early months of 1943 reported war bond sales showed just about the same percentage of increase above those of last year as estimated for the year's total by the Treasury. It is difficult to see what more the Treasury could do to increase voluntary savings still further.

(4) The policy of using subsidies to hold down the cost of living has been very successful in England. There it takes the form of buying food from farmers and from abroad at high prices, and reselling it into wholesale and retail channels at lower prices. Here it would mean buying from farmers at whatever prices are determined as necessary to stimulate the desired production and to satisfy the parity formulas, and reselling at lower prices to hold down food prices. This process breaks the inflationary spiral of higher farm prices, higher food prices, higher wages, higher costs to farmers, and so still higher farm prices. It does give more income to farmers, but (if successful in its effort to stabilize food costs) it does it without furnishing a basis for higher wages and so still higher food prices. Subsidies enable the making of whatever payments to farmers are required to encourage possible further increases in production, without that meaning still further increases in food prices.

Except for the slight possible effect on production, subsidies do not increase the volume of food available for consumers. In fact, if the attempt is made to reduce food prices at a time when there is already more buying power than can be used, that puts even more strain on the price controls and rationing. Through reducing living costs, it leaves more money free for consumers to spend. It reduces the danger of farmers selling their products into the black market, but increases the incentive for black market operations after the product is resold by the government - unless the government sells to the ultimate consumer. The policy of food subsidization, even if fully backed by Congress, could only be fully effective if all the surplus buying power were concurrently drained off by taxes or voluntary and forced savings. While "rolling back" prices through subsidization may decrease the pressure for higher wages, it does not remove the need for trimming free income down to that which can be satisfied with the goods available at the level of prices established.

(5) A substantial portion of the estimated gain in income in 1943 is due to the estimated further increases in farm prices, wage rates, and corporate dividends. As indicated already, all of these rates of payment to individuals have risen far more rapidly in the U. S. than in other warring nations. It may be that the time has come for a frank recognition and bold statement of the fact that further increases in such earning rates are purely illusory, and that attempts to stick to peace-time standards of fairness in prices and pricing only serve to feed the inflationary fires. In wartime, consumers' standards of consumption are bound to fall, as less and less is available for their use. Such a statement might emphasize that the only parity which can be applied in wartime is equality for each individual to share in what is available, so that none shall starve or be uncared for, and that rationing - an even share to all civilians according to their need, regardless of their income - is the parity standard appropriate for war, whether it be for gasoline or tires, or meat, or sugar, or canned goods. A new slogan might be offered - "We share what we have." Such a statement should emphasize that the sooner each of us, as farmers, or workers, or businessmen, give up trying to force up our incomes so as to have the money to buy more than the share to which each of us is entitled, the sooner will the inflationary rise really be checked.

To be really effective, this would require extending rationing to cover, so far as practicable, all consumers' goods and services which cannot now be supplied in sufficient quantities to fill current demands. For some products, such as fresh fruits and vegetables, this would involve developing pricing and rationing schemes with considerable seasonal and geographic flexibility, and also regulating the flow of the commodity, where necessary. Consumers would thus be kept informed of what their fair share of each commodity was, and assured that they would be able to buy that share at the prices fixed. Farm prices are in general already well above parity levels. Most wage rates are up far more than costs of living. If recognition can be attained that there is no more to be had for consumers by further income rises, and that holding present levels - plus more savings or taxes - can establish a stable situation, with ration coupons sharing what is available, then it may be possible to carry through this policy largely on an educational and publicity basis.

Another step might be to ask Congress to modify the farm parity principle for the duration of the emergency, by "freezing" the parity basis - the cost of goods that farmers buy - on the same basis that the cost of living is frozen for wage determinations. This would mean broadening the Little Steel Formula to apply to farm prices as well. There would be obvious difficulties in the way of getting this approved, however.

5. Inflation can Destroy Capitalism and Loss the Peace.

The fight to prevent inflation is part of the fight to keep capitalism workable. Extreme price inflation can destroy the workability of any economic system. Even a moderate degree of inflation, such as the U. S. suffered in the first World War, created acute distress among fixed-income receivers during the high-price phases, and widespread bankruptcies among farmers, businessmen, and country banks in the subsequent deflation. Inflationary speculation is appearing again, with rumblings in the stock market, and farm land values and speculative land transactions increasing already, at the same rate as in the war inflation 25 years ago.

If prices and living costs continue to rise at the rates shown thus far, we may end the war with food and living costs higher than the peaks in 1920. We would then face the decision between preventing a deflation or living with the inflation. If we prevented deflation, we would face grave injustices from maintaining a price rise equivalent to a 50 percent capital levy on all pre-war money savings and fixed incomes, insurance policies, pensions, etc. Strong government measures to correct these inequalities would be necessary. If the deflationary path were followed, all the critical ills of the 1920 - 21 deflation would be magnified by the much greater conversion of our economy to the war effort. If the economic cataclysms of inflation or deflation were permitted to occur, the possibilities of restoring prosperity in the war ravaged areas and of creating a firm and enduring structure of world peace will be greatly endangered.

The fight to prevent inflation today is one of the first stages of the fight to win the coming peace. If we temporize and shrink from the stern and sweeping measures really necessary, we are risking the loss of a century of human progress.

WHOLESALE PRICES
1939 to Date
UNITED STATES COMPARED WITH OTHER COUNTRIES
(1935 - 39 = 100)

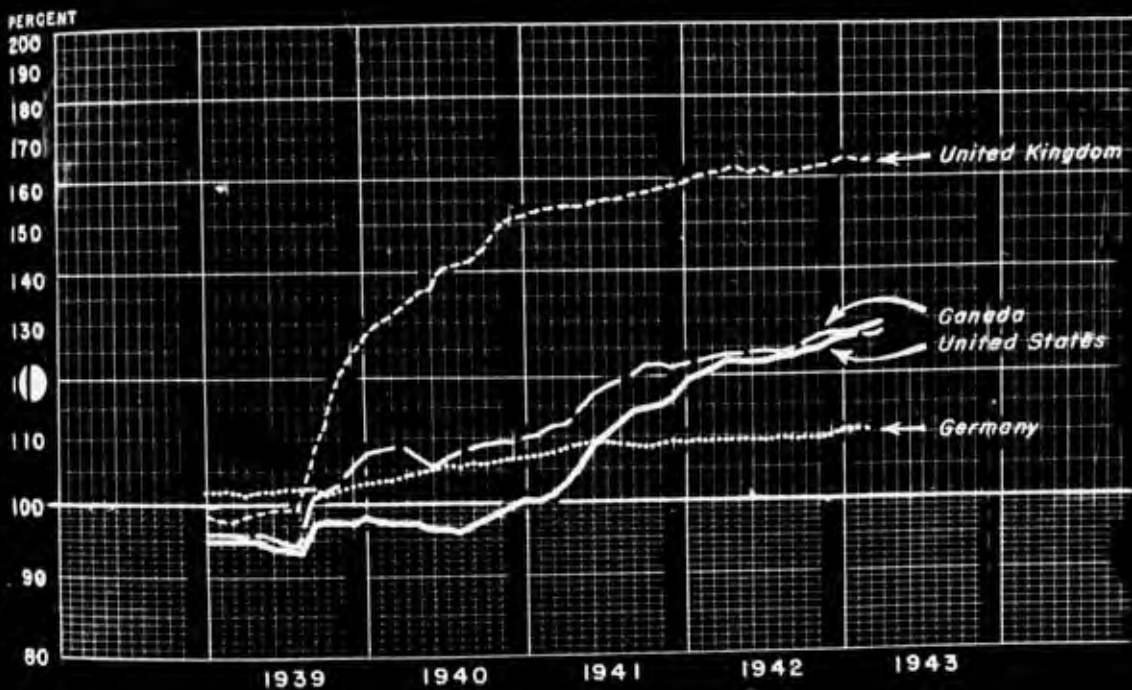


Figure 1.

RETAIL FOOD PRICES

1939 to Date

UNITED STATES COMPARED WITH OTHER COUNTRIES

(1935 - 39 = 100)

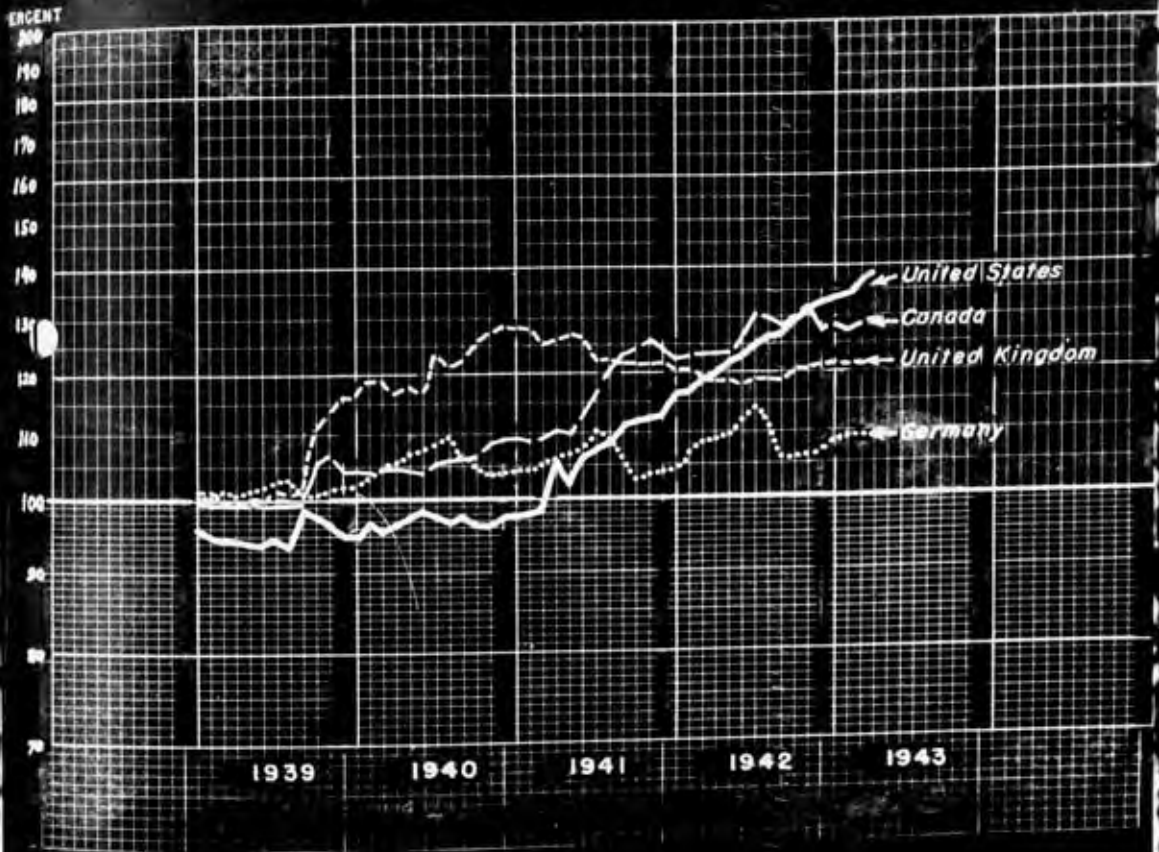


Figure 2.

COST OF LIVING

1939 to Date

UNITED STATES COMPARED WITH OTHER COUNTRIES

(1935-39 = 100)

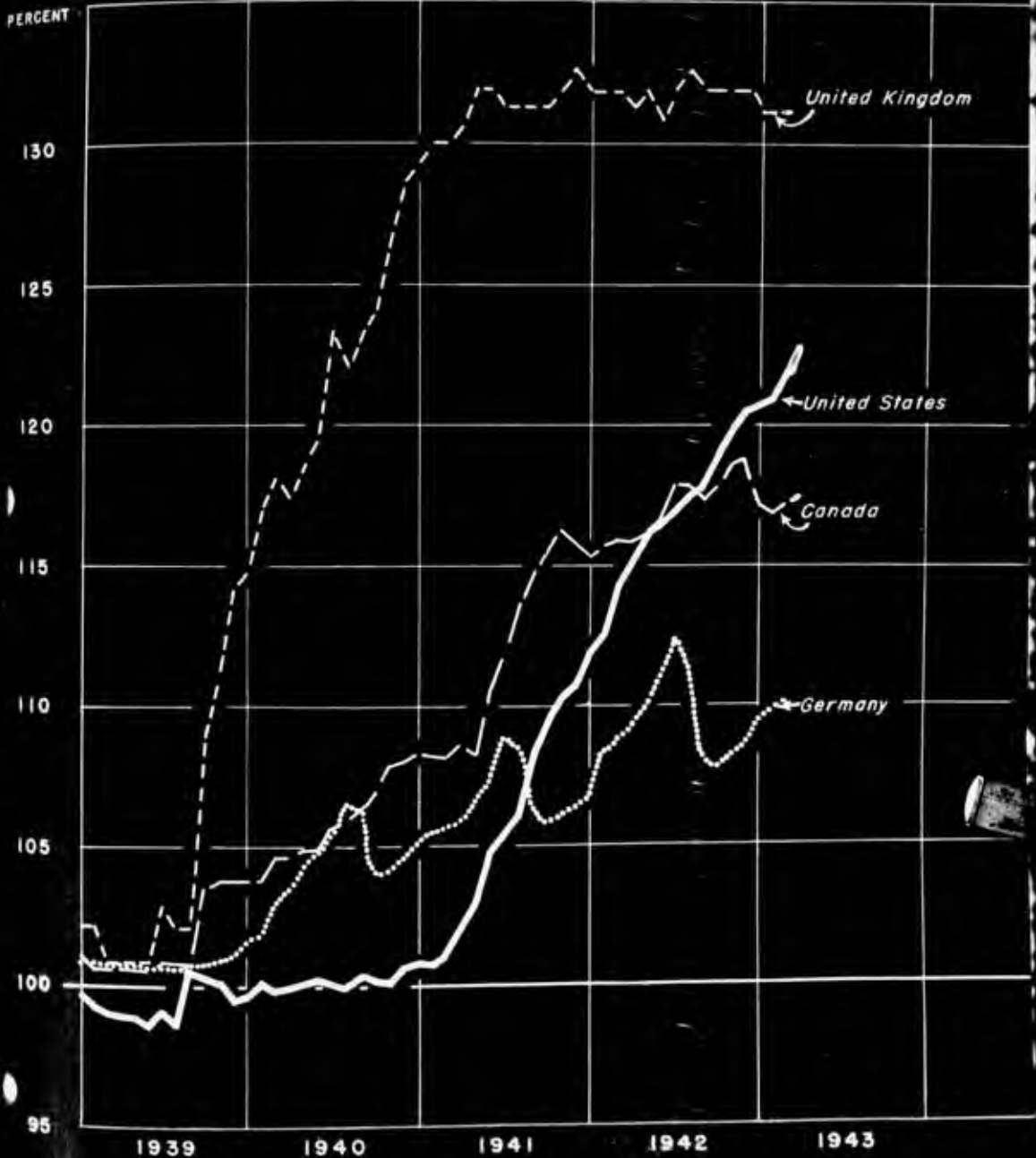


Figure 3.

INDUSTRIAL WAGE LEVEL

1939 to Date
UNITED STATES COMPARED WITH OTHER COUNTRIES
(1935-39 = 100)

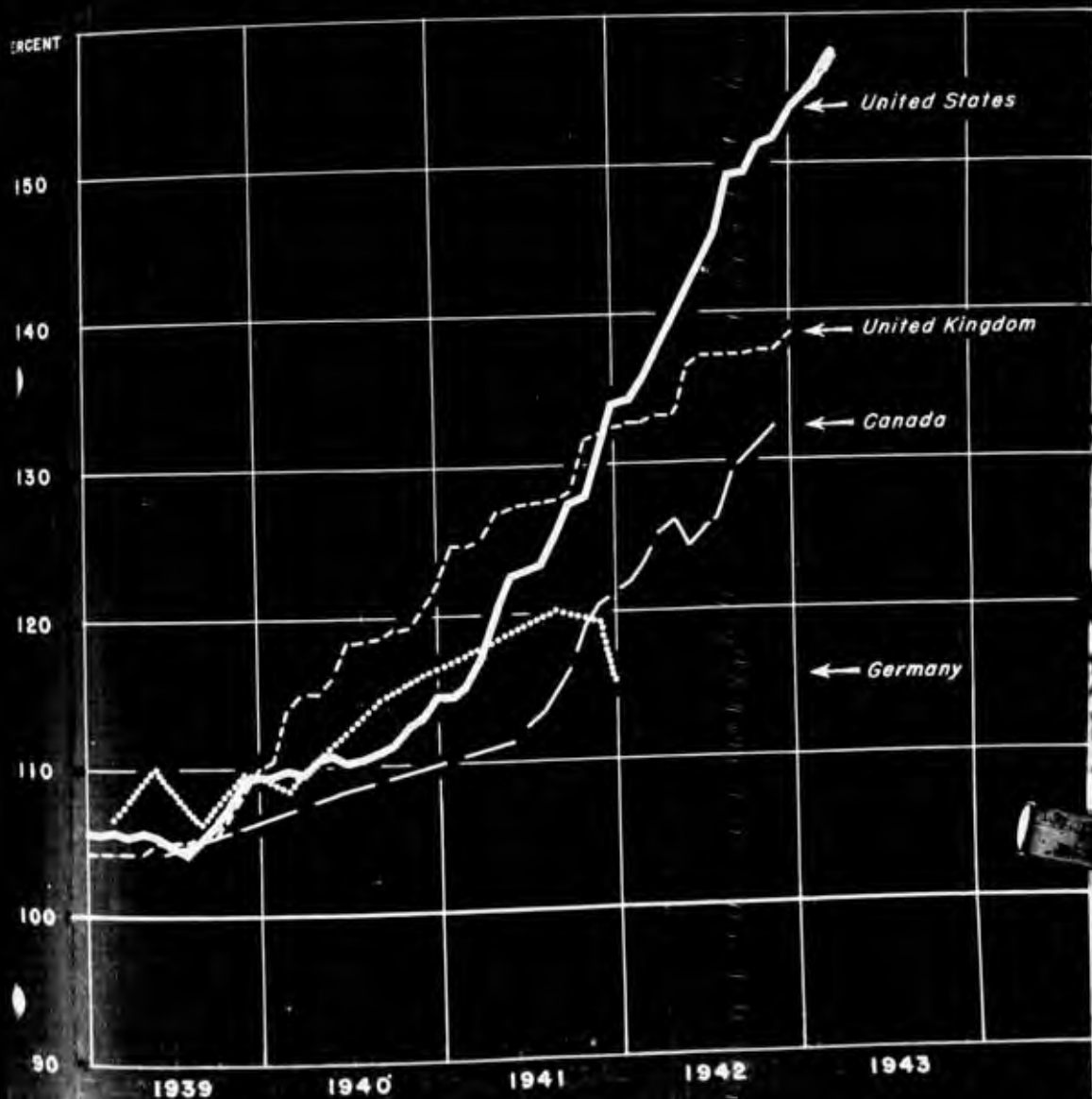


Figure 4.

PROFITS

1939 to Date

UNITED STATES COMPARED WITH THE UNITED KINGDOM

(1939 = 100)

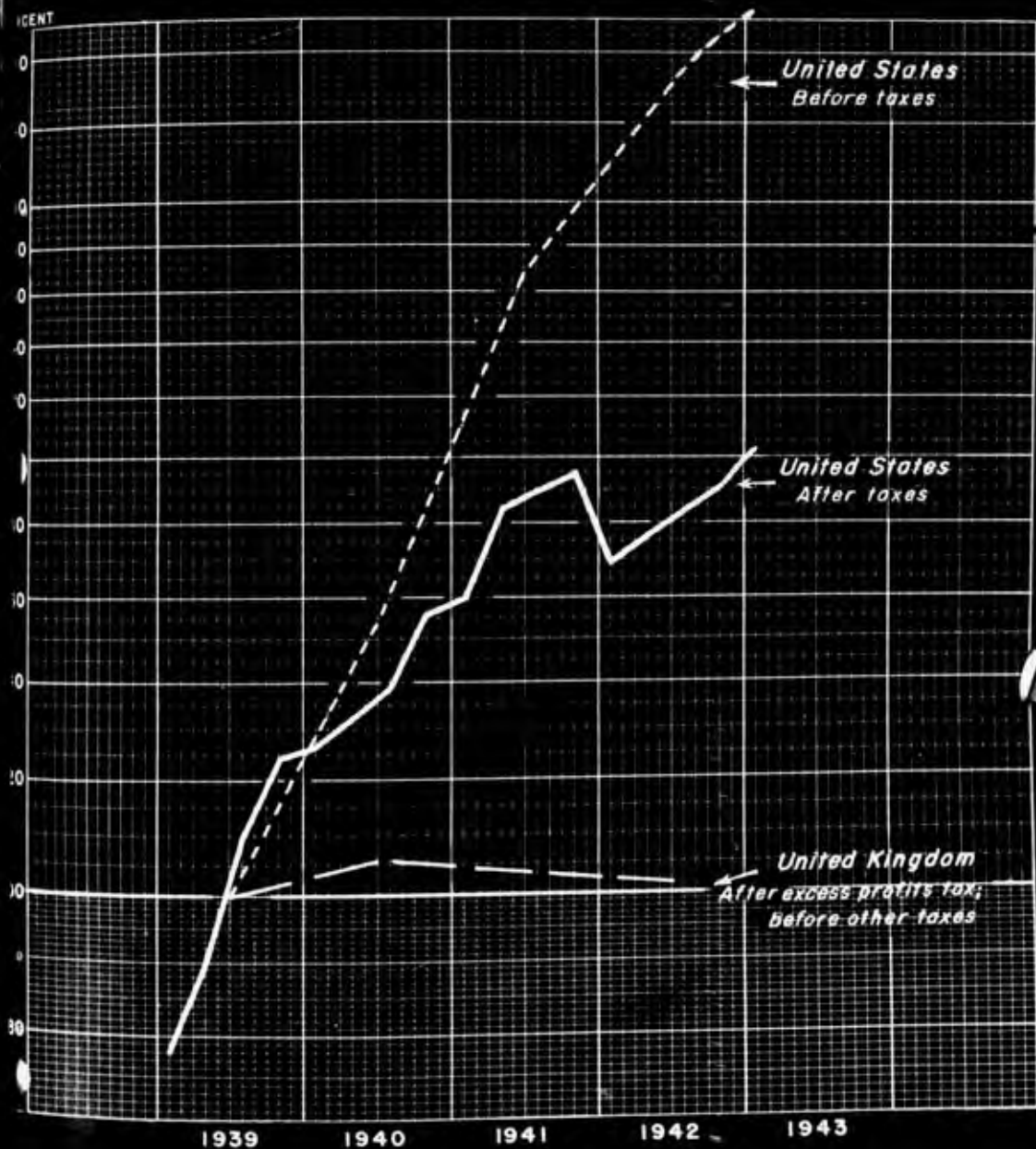
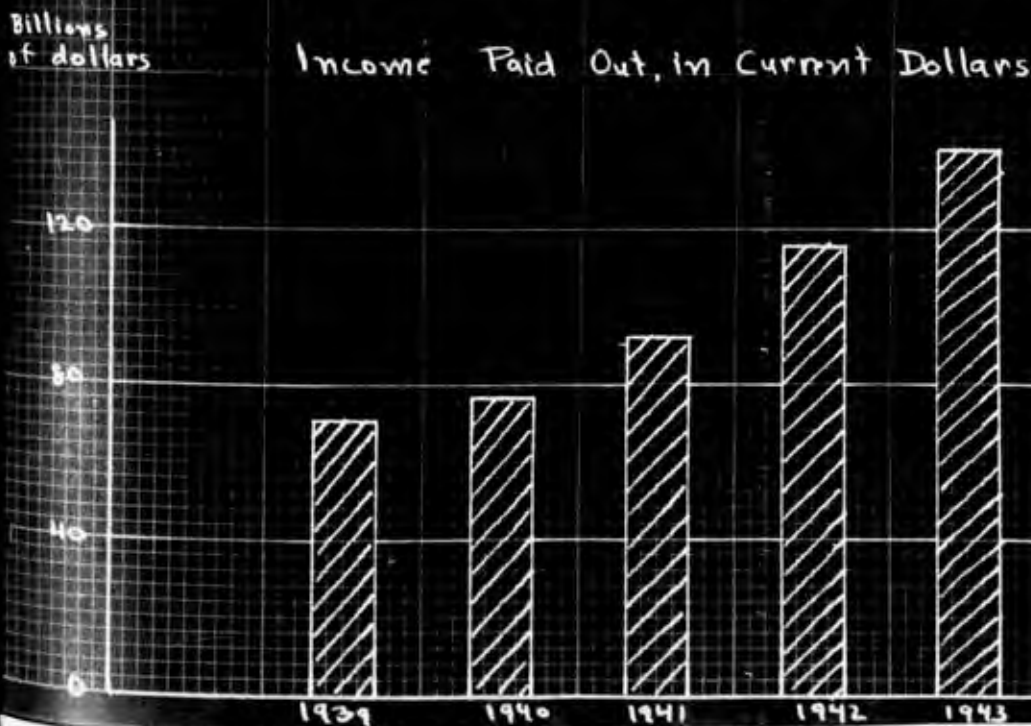
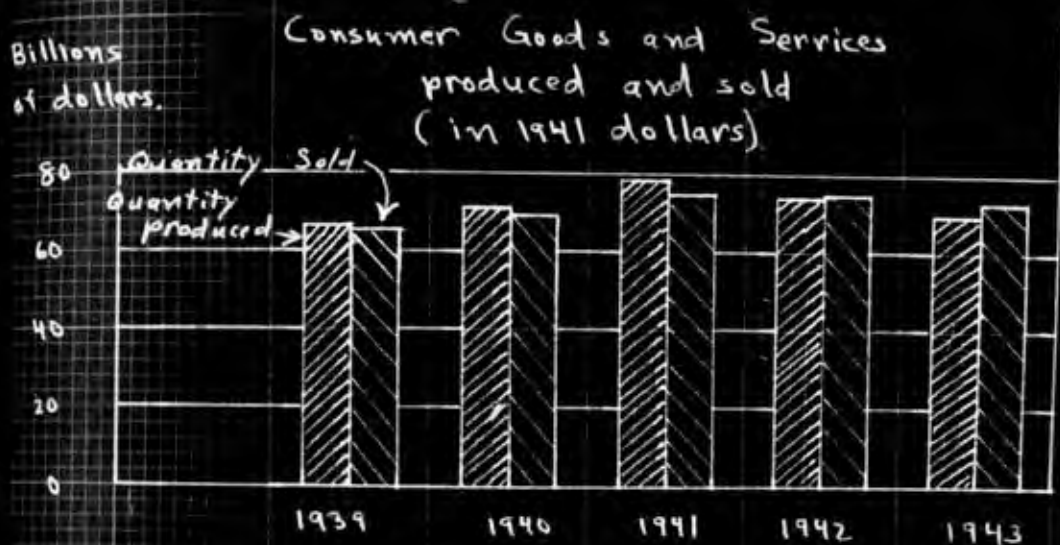


Figure 5

Figure 6. Goods and Services
for Consumers versus
Disposable Incomes.- 1939-1943.



Data for Figure 7
(Billions of Dollars)

Year	Goods and services sold consumers (at 1941 prices)	Cost of living (1941=100)	Income payments to individuals ^{1/}	Taxes paid from personal incomes ^{1/}	U.S. bonds bought from incomes ^{2/}	Other personal savings ^{3/}	Total personal savings ^{3/}	Balance - income available for expenditure
1939	65	94	71	3.1	0.1	5.9	6.0	62
1940	69	95	77	3.3	0.3	7.2	7.5	66
1941	75	100	92	4.0	3.3	10.4	13.9	75
1942	74	111	116	6.6	10.2	16.7	26.9	82
1943	72	123	141	14.5	13	24	37.2	89

- ^{1/} Survey of Current Business, March 1943. Estimates for 1943 from Current Business Analysis Unit, Bureau of Foreign and Domestic Commerce.
- ^{2/} Data for 1941 and 1942 from Treasury Div. of Research and Statistics (material in press release, April 13, 1943.) Data for 1943 estimated on basis of increase in U. S. Savings Bond sales, 1st quarter 1943 over 1st quarter 1942 (Fed. Res. Bd. May 1943, p. 447.)
- ^{3/} Total savings minus U. S. bonds
- ^{3/} Same source as ^{1/}, except 1943 estimated on assumption of 10 percent rise in living cost, 1943 over 1942, and savings correspondingly lower. Commerce estimated 5 percent rise in living cost, and savings 42.2 billions. Treasury (^{2/}) estimated 45 billions 1943 savings.

Measures Used to Balance Goods and Incomes

Goods and Services Sold to Consumers

Incomes

Quantity

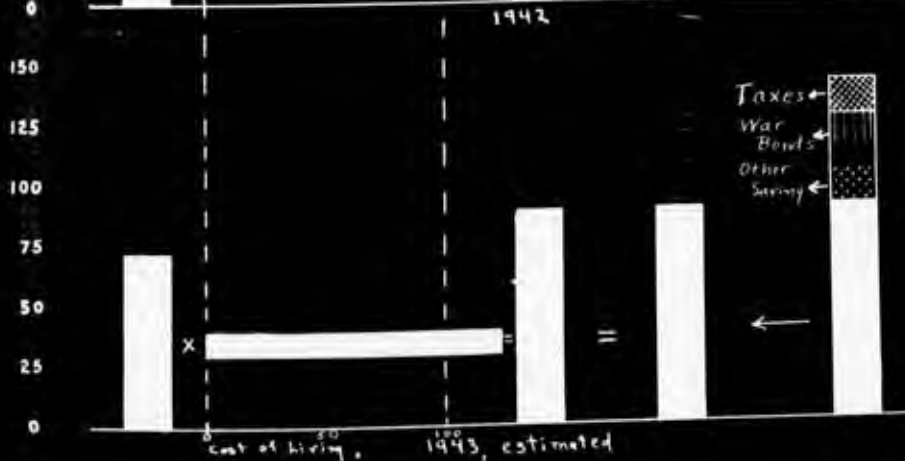
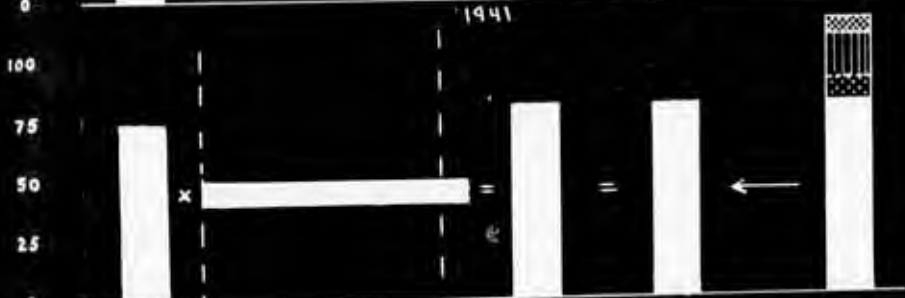
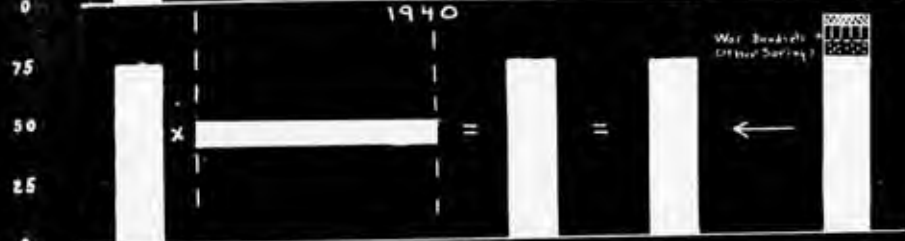
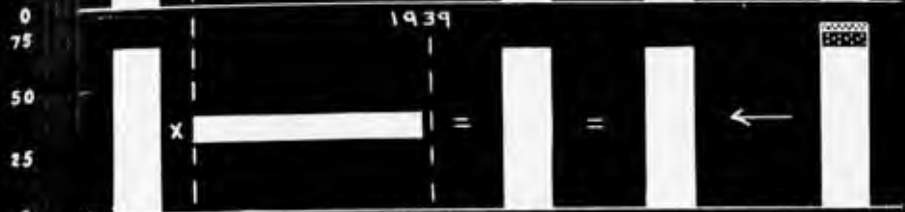
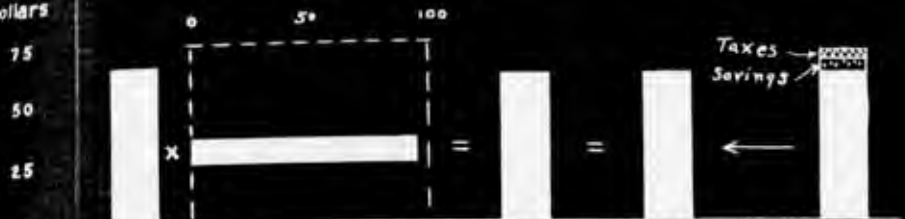
Price Level
(cost of living, with 1941 = 100)

Value

Spent

Received

Billion Dollars



cost of living, 1943, estimated

1943?

Measures Used to Balance Goods and Incomes

Goods and Services Sold to Consumers

Incomes

Quantity

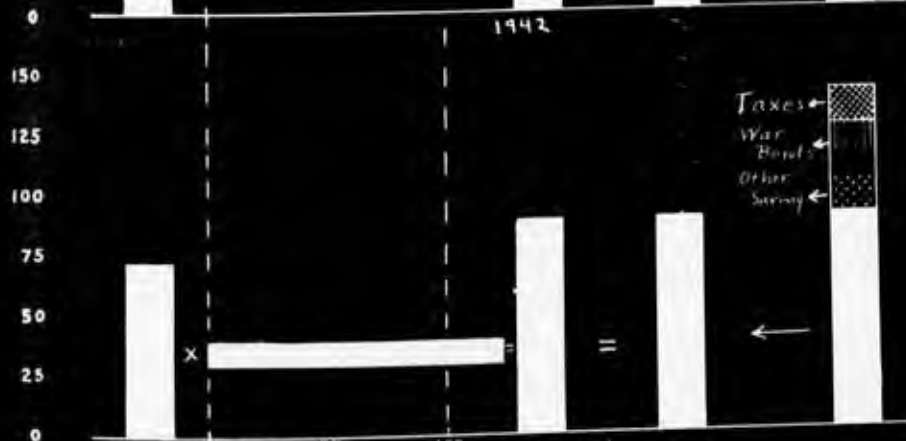
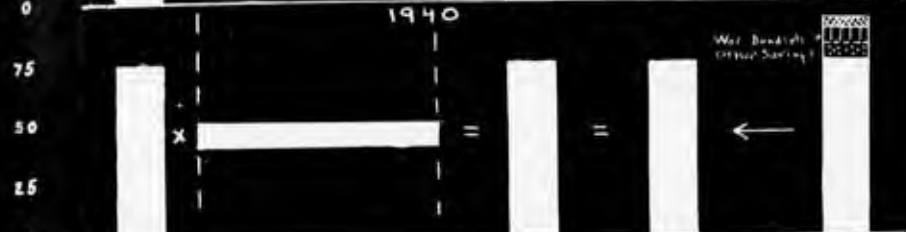
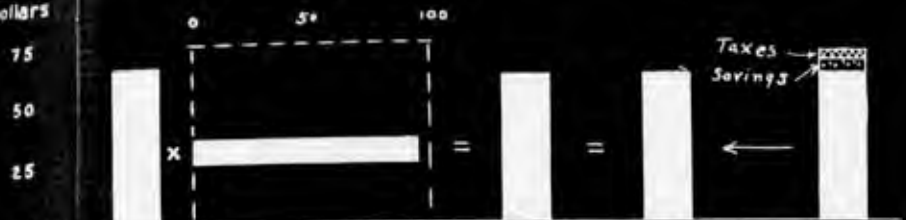
Price Level
(cost of living, with 1941 = 100)

Value

Spent

Received

Billion Dollars



cost of living, 1943, estimated

Figure 7

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 31, 1943

TO Secretary Morgenthau
FROM Mr. Heas
Subject: The Business Situation,
Week ending May 29, 1943.

Summary

Wage control: Labor groups continue to exert heavy pressure against wage stabilization policies under the price control program, with resentment over WLS actions cropping out in several large-scale strikes recently. Despite reiterated adherence to the "Little Steel" formula and the hold-the-line program, the general drift of actual wage rates is toward higher levels.

Cost of living: A basis for additional demands for increased wages was provided by another sharp rise in living costs last month. The BLS cost-of-living index rose 1.1 percent in April, due largely to a marked rise in food prices. Featured by sharp increases in prices of fresh fruits and vegetables, food prices rose 2.3 percent in the month.

Subsidy rollback program: The plan to subsidize a 10 percent reduction in retail prices of meats, coffee, and butter, which was to have become effective June 1, has been postponed. Administrative difficulties in working out the details of the subsidy and the handling of inventory losses, together with Congressional opposition, is responsible for the postponement. The program on butter is now scheduled for June 10.

Commodity prices: Commodity prices moved irregularly last week, and the BLS index of 28 basic commodities declined fractionally. Flaxseed prices dropped sharply with the imposition of price ceilings below recent market levels.

Industrial production: While output of the principal war-material industries increased further in April, the general level of industrial production has held nearly unchanged for 3 months. The FRB adjusted index stood at 203 in April as compared with 202 in the 2 previous months. Despite reports of cut-backs and contract cancellations, WPB and Army officials indicate that over-all output of war goods will be increased from present levels.

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Wage stabilization policies under heavy pressure

Featured by a wave of strikes at Detroit, Akron and other war centers, following the temporary work stoppage in the coal mines at the beginning of the month, continued pressure is being exerted by labor groups against present wage stabilization policies under the price control program. In the coal wage controversy, present indications are that the miners will gain increased compensation in some form or other. In the event concessions to the miners should amount to \$1 per day, some coal and coke interests have estimated that the cost of producing soft coal will be increased 40 to 50 cents per ton while coke production cost will be increased 75 cents per ton.

Presidential intervention has succeeded in getting 50,000 rubber workers back to work, who had struck in protest against a WLB wage award, but the issue is not yet settled. Meanwhile, an emergency board of the National Railway Labor Panel, acting independently of the WLB, has recommended an increase of 8 cents an hour in the wages of more than a million non-operating railroad employees. This award, which will go into effect unless disapproved within 30 days by the Director of Economic Stabilization, will be retroactive to February 1, and will increase the railroads' payrolls around \$200 millions annually. Another emergency board of the National Railway Labor Panel is scheduled to begin hearings in the near future on demands of the railroad operating employees for a 30 percent wage increase.

As in the case of the coal miners, the non-operating railroad employees received a pay increase in 1941 which on the average was slightly in excess of the 15 percent rise permissible under the "Little Steel" formula. Nevertheless, the emergency board held the further increase of 8 cents per hour to be justified in view of the fact that straight-time hourly earnings and average weekly earnings of factory workers have advanced much more sharply than have those of railroad non-operating workers, resulting in "gross inequities." Thus, while adherence to the "Little Steel" formula continues to be reiterated in passing upon wage demands, it is obvious that the hold-the-line order has by no means ended the upward drift of wage rates.

Cost of living continues to rise

Ammunition for further wage demands was provided by another sharp rise in the cost of living in April. The BLS cost-of-living index rose 1.1 percent in that month, following

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the 1.5 percent increase in March. The index now stands 7.8 percent above that of April 1942, and 23.1 percent higher than the level of January 1941, shortly before living costs began their continuous war-engendered rise.

The cost-of-living index has risen 5.3 percent since September 15, 1942, at which level prices and wages were directed to be stabilized by the Price Control Act of 1942, and the Price Administrator admitted last week that "the cost of living has gotten away from us (since September 1942), cutting into the purchasing power not only of wage earners but of every other group, including the dependents of our fighting men."

A substantial increase of 2.3 percent in food prices was largely responsible for the rise in the cost-of-living index in April, while other items advanced but slightly or remained unchanged. (See Chart 1.) The rise in food prices comes on top of a sharp increase in March, making a 5.2 percent advance in the past two months. As in the previous month, the increase in food prices was largely a result of higher prices for fresh fruits and vegetables, partly of a seasonal nature. Some of the outstanding increases in April were: potatoes, 14.5 percent (potatoes have a weight of 4 percent in the food index); sweet potatoes, 30.9 percent; cabbage, 23.7 percent; lettuce, 12.7 percent; onions, 19.7 percent; apples, 19.1 percent. Pork prices were slightly lower under the dollar-and-cents ceilings which became effective April 1.

The continued steep rise in prices of food, which has occurred at a time when the prices of other items have tended to level out, clearly indicates the necessity of controlling food prices if further advances in the cost of living are to be prevented. Furthermore, since about 95 percent of all foods, and all but a few of the food items in the cost-of-living index, are subject to ceiling prices, the prime importance of maintaining and effectively enforcing existing price ceilings is apparent.

Subsidy rollback program postponed

The plan to subsidize a 10 percent reduction in retail prices of meats, coffee, and butter which was to have become effective June 1 has been temporarily postponed, Price Administrator Brown told the press last week, but it will be

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instituted as soon after that date as possible. (A reduction in butter prices is now scheduled to go into effect June 10.) It is possible that wage demands by coal miners, partly influenced by the rising cost of foods, forced OPA prematurely to promise a rollback in food prices before the mechanical and legal difficulties could be resolved.

Two important obstacles confront OPA in the establishment of the subsidized rollbacks: administrative difficulties and Congressional opposition. The complexities involved in the payment of subsidies to thousands of meat packers and dairymen must undoubtedly be considerable. Furthermore, a difficult problem arises in how to handle losses on inventories of retailers and wholesalers. Some of the alternatives are (1) to force retailers and wholesalers to absorb inventory losses on the rollback, (2) to pay initial subsidies to retailers and wholesalers as well as processors, (3) to postpone the rollback on retail and wholesale prices until inventories are disposed of, or (4) to pay processors who will then give rebates to cover inventory losses of retailers and wholesalers. Another complication is that RFC officials have stated, according to press reports, that they cannot legally subsidize inventories, although they can pay subsidies on current production. The RFC and OPA met with representatives of the meat packing and dairy industries last week to work out details of the rollback program.

Aside from administrative difficulties, the OPA is faced with Congressional opposition to the program. The Senate Agricultural Subcommittee is reported in the press to be unanimously opposed to it. Furthermore, Senator McNary warned last week that RFC's lending power for the payment of subsidies in maintaining OPA price ceilings will not be enlarged by Congress before the summer recess; however, the Secretary of Commerce said that RFC had enough money for the present program. Finally, the Food Administrator testified before a Senate hearing on the rollback program that he doubted the wisdom of the proposal to pay subsidies to compensate for reduced market prices.

OPA price policy criticized

Severe criticism is being voiced by independent food stores of the recently-imposed community price ceilings. It is claimed that under the community ceilings many grocers

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will be unable to cover replacement costs, and that thousands of retail stores will be driven out of business. (The independent grocers have been more frequently charged with selling at black market prices than have the chain grocers.)

Although not enough time has elapsed since community price ceilings were imposed to determine the validity of the grocers' criticism, information just released by the Department of Commerce indicates that independent grocery stores have been in an advantageous sales position since the advent of price control in 1942. Sales of independent grocers (in dollar totals) increased rapidly in 1942, and in the first quarter of 1943 were 30 percent above the corresponding period of last year, while sales of chains leveled off in 1942 and in the first quarter of this year were about the same as a year earlier. (See Chart 2.) Sales of both groups were sharply lower in April, doubtless reflecting the meat rationing program which went into effect March 29.

The rapid increase in sales volume of the independents has been due largely to the following influences: (1) Maximum price regulations have allowed the independents higher price ceilings, enabling them to pay more for scarce foods and to obtain more from the sources of supply. (2) With higher incomes, consumers are able and willing to pay the higher prices charged at independent stores. This is especially true since point rationing caused many shoppers to be more "point" conscious than price conscious. (3) It is probable that a part of the gain in sales of independent stores has been due to their charging above-ceiling prices. (4) Restrictions on the use of passenger cars have forced consumers to patronize their neighborhood independent stores. These same factors will doubtless continue to favor the independent stores under community price ceilings, with the important exception that their ability to charge above-ceiling prices will be much more restricted.

Commodity prices irregular

Commodity prices last week moved irregularly, and the index of basic commodities was off fractionally. On the whole, the basic commodity index has levelled out since the President's hold-the-line order was issued early in April. (See Chart 3.)

Flaxseed prices declined 5.5 percent last week with the imposition of price ceilings below recent market levels. Heavy marketings depressed hog prices noticeably, and they have now fallen to the levels of last December. Prices of

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cotton and barley were up somewhat. The disclosure that the CCC had already sold most of the 100 million bushels of wheat authorized for livestock feed under recent Congressional action greatly stimulated the demand for rye, and rye prices rose sharply. (Rye is not included in the BLS basic commodity index.)

The BLS all-commodity index in the week ended May 22 remained unchanged at 103.8, which is 5.2 percent higher than in the corresponding week last year. A 4 percent advance in the price of oats and further increases for fresh fruits and vegetables were insufficient to change the level of the index.

Stock prices rise to new high

Although trading activity continued to run substantially below the levels attained in the early part of the month, industrial stock prices moved gradually upward last week to the highest levels since May 1940. At the close on Saturday both industrial and railroad stocks, as measured by the Dow-Jones averages, were about 2 percent higher than a week earlier, while utility stocks showed a smaller gain. (See Chart 4.)

The slower pace of trading recently has been accompanied by greater strength and activity in the high-priced stocks, suggesting the possibility that investment interests have assumed a more important role in the market. The fact that railroad stocks were able to show a moderate net gain for the week is noteworthy, since a wage award handed down during the period is expected to increase railroad operating costs around \$200 million annually. However, the net burden to the railroads is considerably less than would appear at first glance, since a large part of this amount would otherwise be paid out in income taxes.

Rise in industrial production slackens

Although the output of principal industrial groups engaged in war activity increased further in April, industrial production as a whole has held about unchanged over the past three months, on a seasonally-adjusted basis. The FRB adjusted index in April stood at 203 as compared with 202 in March and February. (See Chart 5.) While reports of cut-backs and cancellations of war orders have been rife, the Vice Chairman of the WPB recently indicated that over-all war production in the remainder of the year would have to be stepped up, since first-quarter output amounted to only 20 percent of the total scheduled for the year. Likewise, the

- 7 -

Director of Materiel of the Army recently indicated that Army supply schedules would rise \$100 million a month until next October before a leveling-off is expected to occur.

The slightly greater than seasonal rise in production during April was partly due to the attainment of new peaks in the output of war goods in the transportation equipment and machinery industries. Steel output also reached a new high, although pig iron production dropped off. Chemical production showed further expansion, but output of other non-durable goods in the aggregate was little changed.

Construction contract awards decline

A further contraction in the construction phase of the War program is foreshadowed in recent reports of construction awards. Total contract awards in April, as reported by the F. W. Dodge Corporation, showed a further decline of 11 percent from the previous month and reached a new low since February 1941. Testifying to the tapering off of the plant facility program, construction contract awards for manufacturing buildings in April dropped to \$41 millions, in sharp contrast with \$145 millions in April 1942 and \$378 millions at the peak last September. (See Chart 6.) The prospective decline in construction activity is an encouraging development, as it will help to relieve existing shortages in manpower and critical materials.

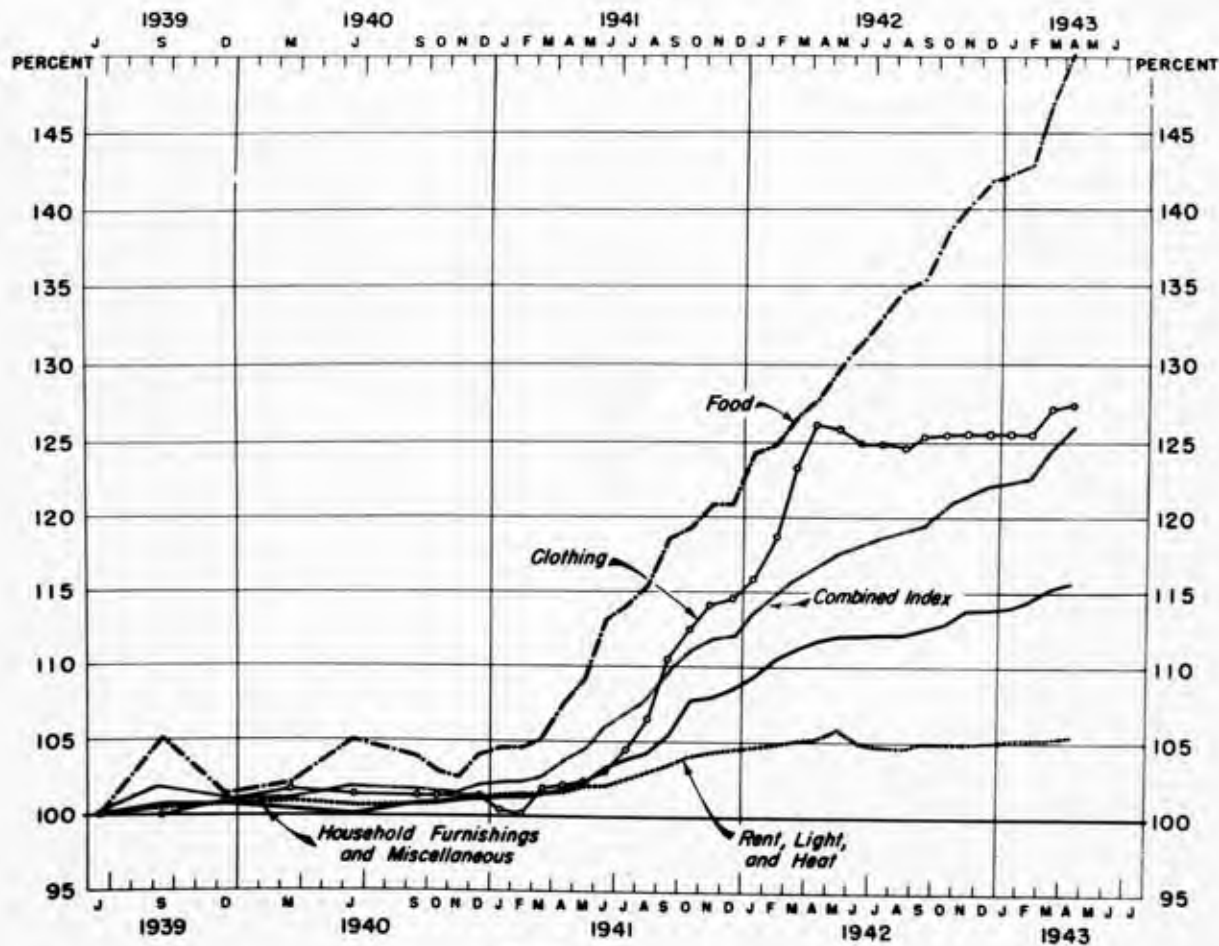
Department store sales gain widens

Despite the numerous restrictions on civilian goods supplies, department store sales continue at high levels. Thus in the week ended May 22, sales ran 20 percent above year-earlier levels as compared with 16 percent in the previous week and 12 percent for the year to date. Talk of possible rationing of clothing earlier in the month probably lent some stimulus to sales, but apparently did not have the wide effect some people had feared. (See Chart 7.)

As a result of the heavy sales volume and the restrictions on supplies, department store inventories (in dollar value) have dropped well under year-earlier levels. At the end of April stocks were 25 percent below the corresponding date in 1942, and the FRB seasonally-adjusted index of stocks stood at the lowest level since August 1941. The decline in retail supplies, when consumer incomes are rising to unprecedented levels, suggests further pressure on price and ration controls.

COST OF LIVING AND SELECTED ITEMS

June 1939=100



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

Source: B.L.S.

C-413-A1

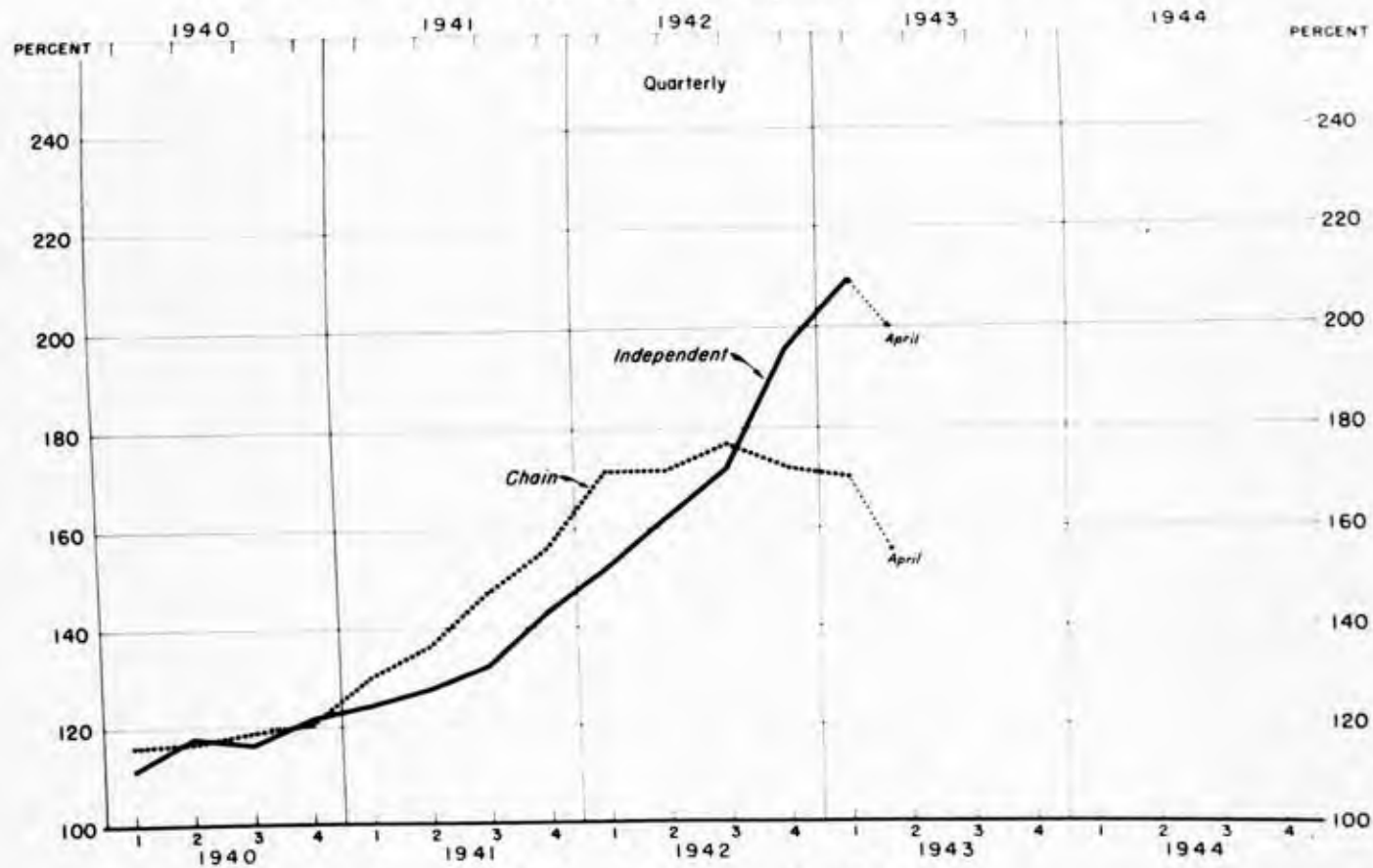
Chart 1

149

Regraded Unclassified

SALES OF CHAIN AND INDEPENDENT GROCERY STORES*

1935-'39=100, Adjusted



*Includes Stores with and without Fresh Meat
Source Department of Commerce.

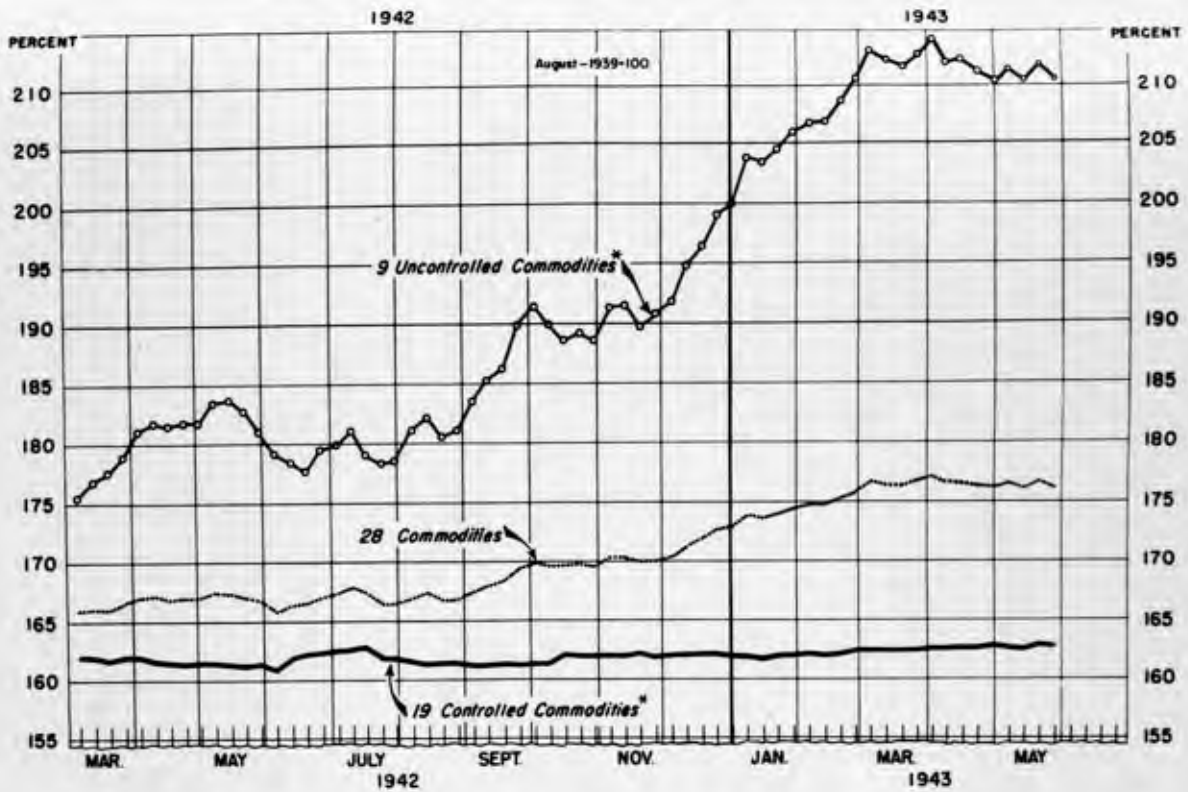
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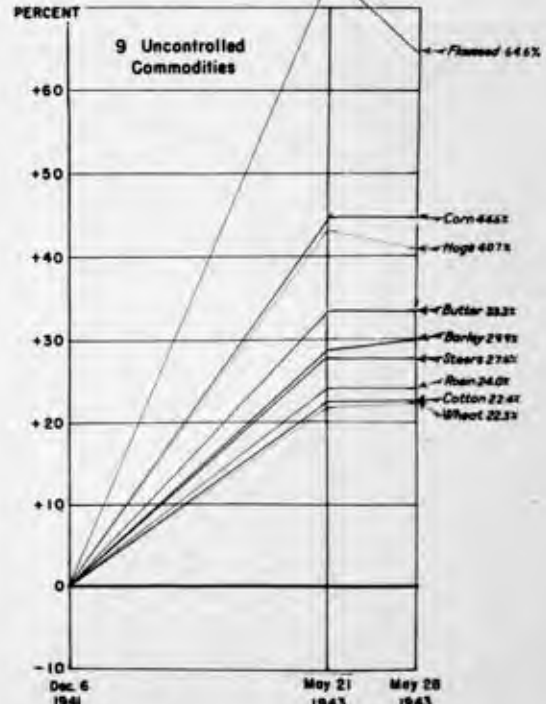
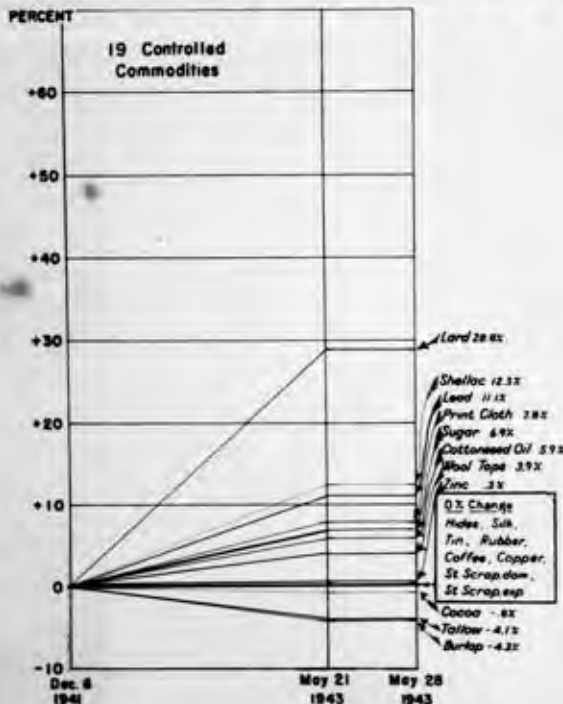
Chart 2 150

C-489

MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO MAY 21 AND MAY 28 1943



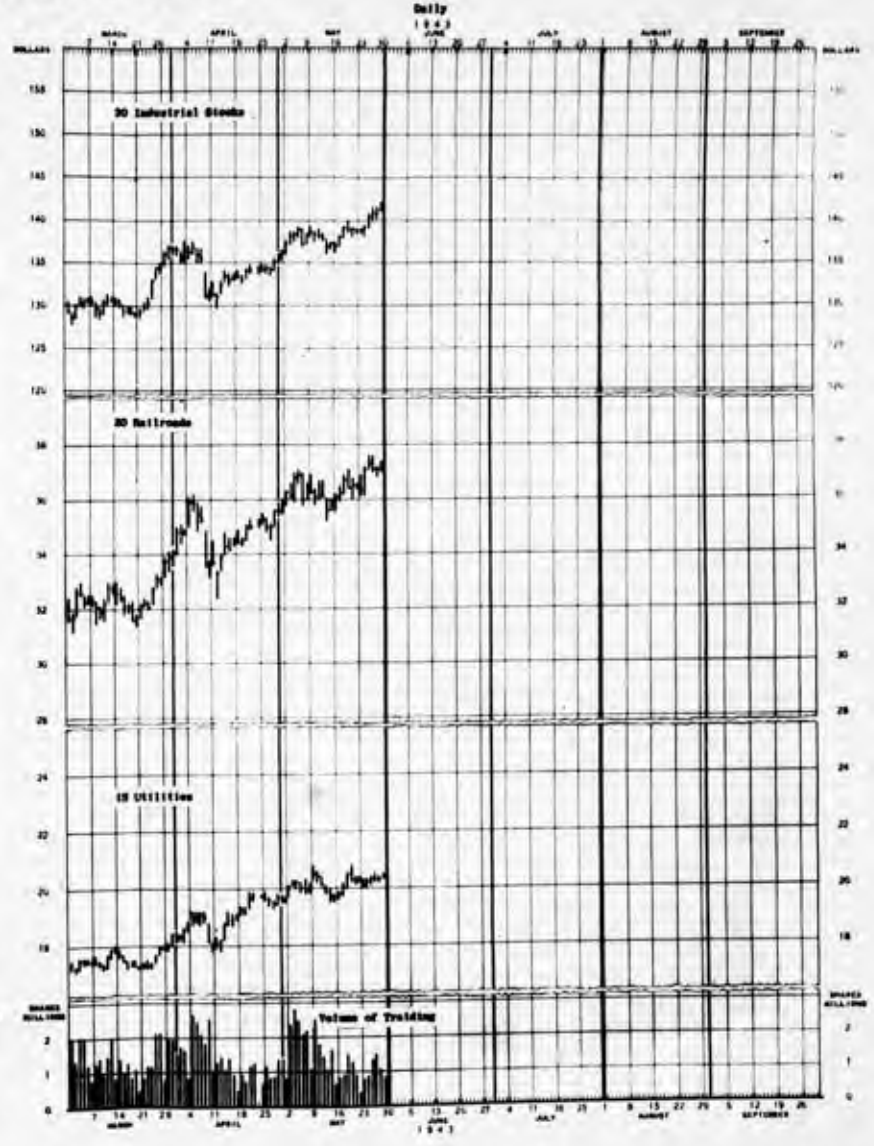
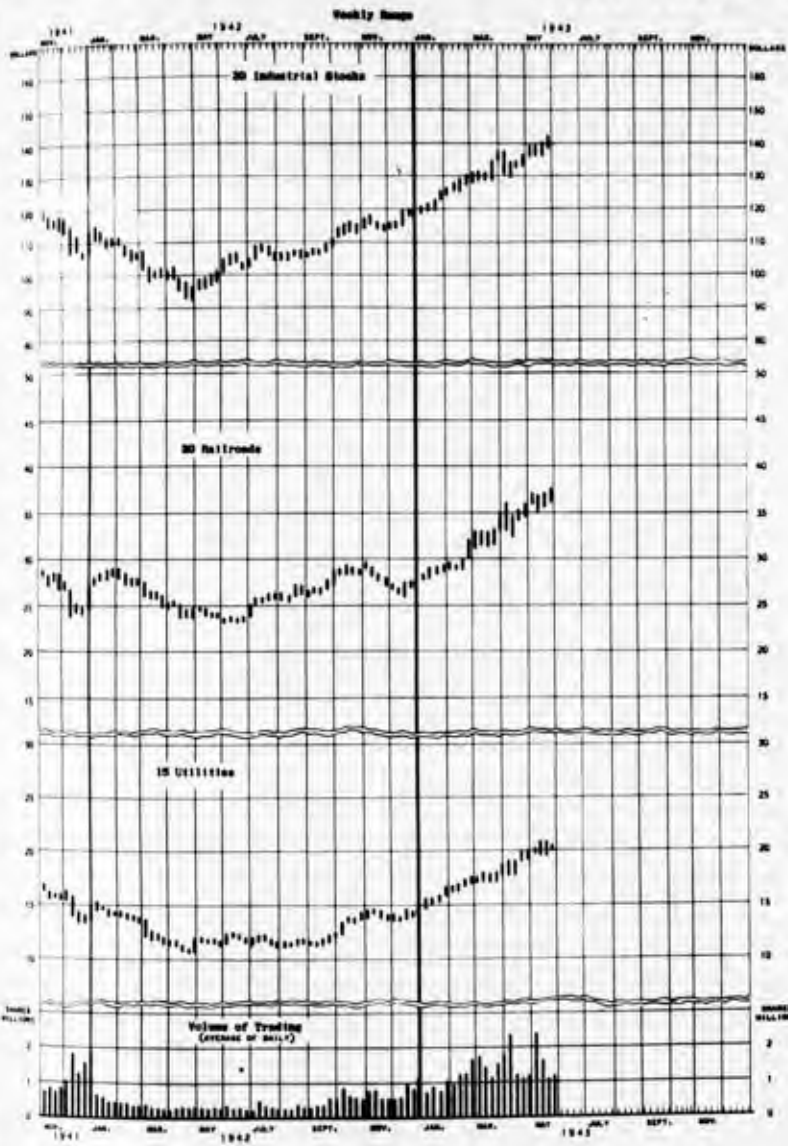
151

[#]20 Controlled and 8 Uncontrolled previous to June 26

STOCK PRICES, DOW-JONES AVERAGES

152

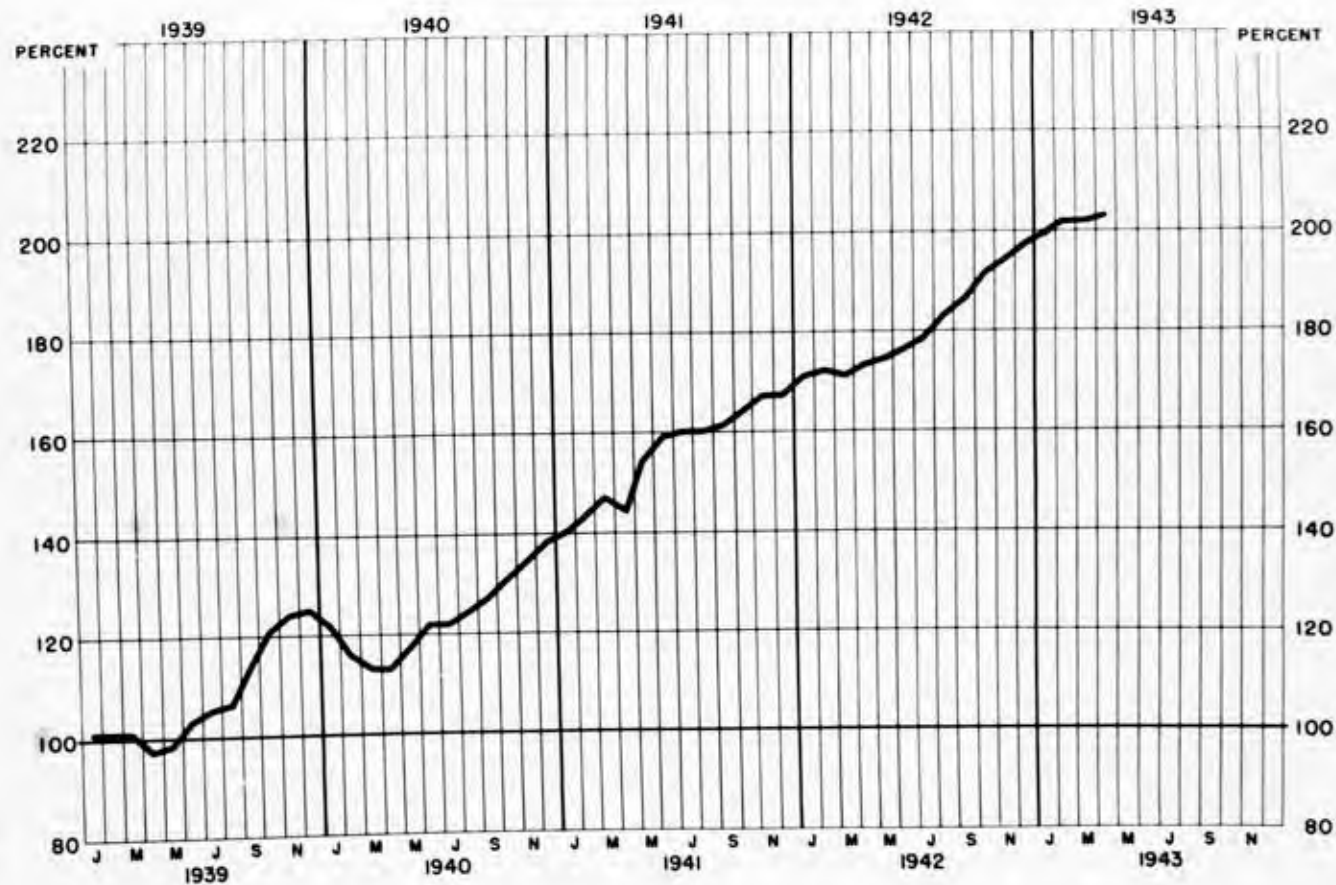
Chart 4



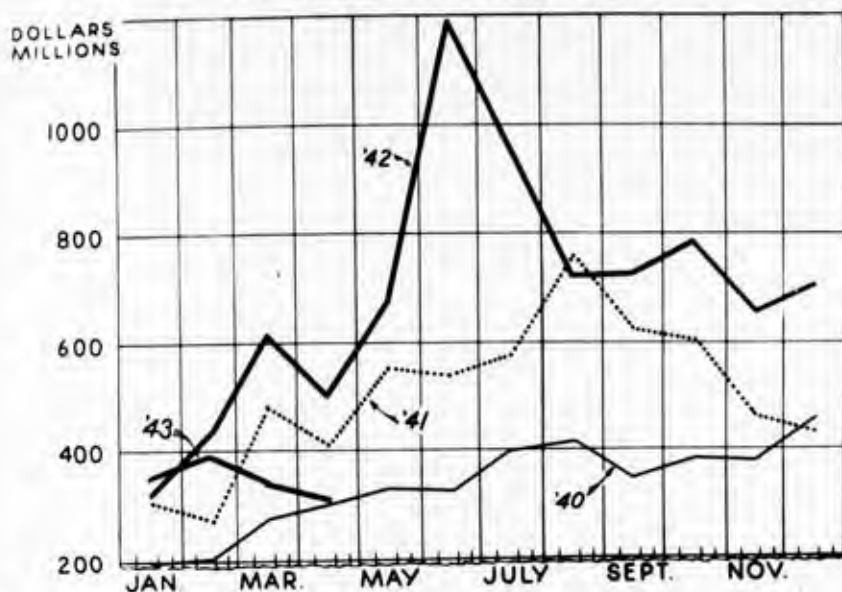
Office of the Secretary of the Treasury
Bureau of Research and Statistics

F.R.B. INDEX OF INDUSTRIAL PRODUCTION

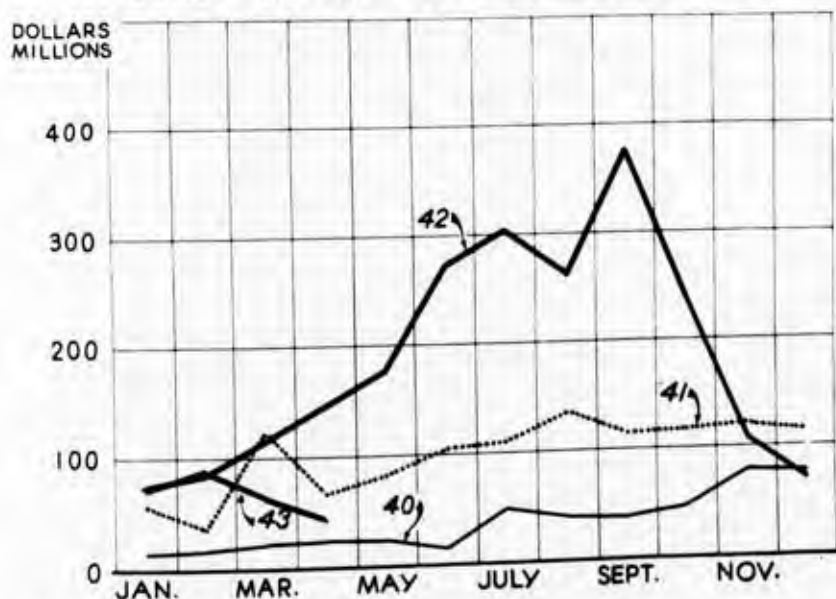
1935-'39=100, Seasonally Adjusted



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

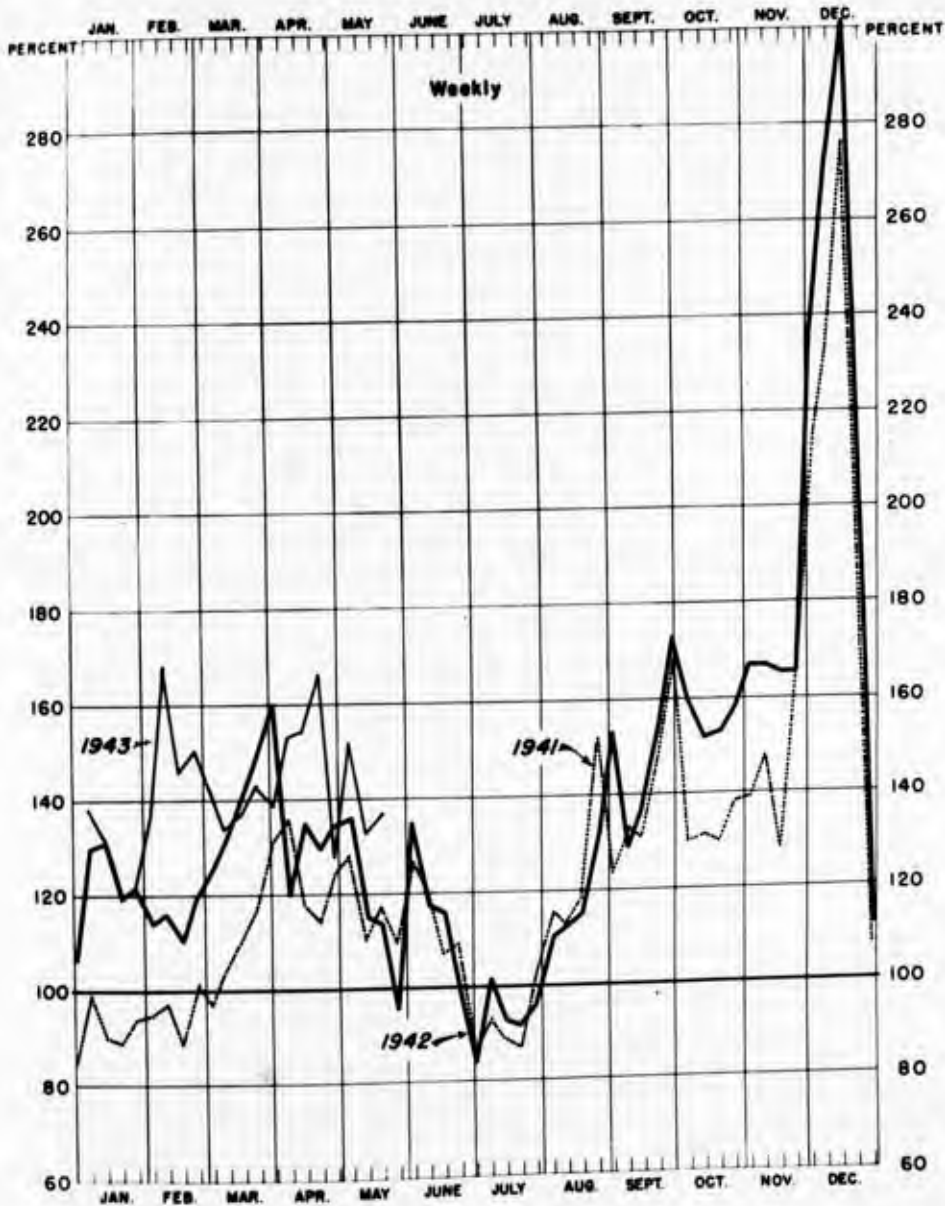


MANUFACTURING BUILDINGS CONSTRUCTION CONTRACTS AWARDED



DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted





OFFICE OF THE DIRECTOR

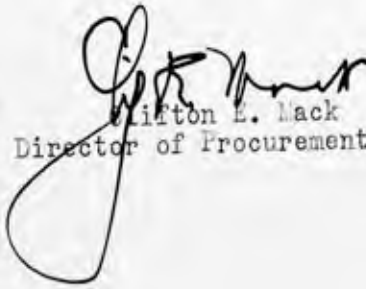
TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

May 31, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of May 24, 1943, the purchases against the African Program from May 24, 1943, to May 30, 1943, totaled \$7,403,330.16 or a total of purchases for the program thus far of \$42,842,288.43.

Attached is report giving status of shipping against these purchases.


Wilton E. Lack
Director of Procurement



(37861)

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Aluminum sulphate			14.5	
Asbestos sheet packing	2			19
Boiler tubes				
Bone glue		20.5	37	
Books & booklets	2			
Brass rods & sheets	29.7	31.35	101.5	
Babbitt metal	53.85			
Brick	129		40	
Calcium carbide		1169.05	340	981.7
Cement		20		
Cement, rubber			19.5	
Chemicals	181.5	806.8	195.1	494
Coal cutters	12			
Copper tubing		14.5	60.6	24.5
Corrugated boards		90	34.4	22
Clothing	2233.71	131.55	130	5
Copper sulphate	5697.7		47.5	
Cotton thread	69.25	30		
Cordage & twine	225	39.5	26.5	
Drugs	6.5	20.5	12.5	2
Electrodes		19		3
Envelopes		11.5	15.18	2.5
Files, steel	15	15		
Fullers earth	72			
Gelatin	1	1		
Glass, window		76	21	24.3
Glass lamp chimneys			17	
Glycerine	12.75			
Horse shoes & nails	125.9	61	30.03	10.75
Rosierery	26	5	7.5	7
Jute bags		604	555	

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Light bulbs			11.6	
Lithopone			10.2	
Lumnite	30			
Mach. finished book paper	2			
Matches	389.75	4.5	9.1	70.15
Newsprint	918	131	81	28
Nipples, bottles, eye cups			9	
Paper products	10	270.4	316.4	403.47
Paper bags		190.6		
Phonograph records			1,000 each	
Paint pigments	15.5	33.5	12.7	1.6
Piece goods, textiles	7775.5	2946.77	2227.75	557.05
Pig iron		497	65	
Pig tin	64			
Powdered milk	119			
Printers ink & supplies	.1	6		
Raw sugar	1545			
Refined sugar	4196.5			
Sheet copper, rods, cable	2.8	44.2	29.1	60
Shoe tacks	4	19.5		
Spare parts for autos, tractors & harvesters	256.1	346.4	179.6	543.79
Spark plugs	4.5	5		
Storage batteries	51.7		9.15	11.3
Steel, pipe, bars, angles, wire	38	504	1431.2	1864.22
Shoes, boots & soling	247.25	93.75	81	51
Sulphur commercial flour		1282	562.2	3038
Tin plate	845			
Tires, tubes & tape	240.75	63	74.7	364.54
Tools	3.5	18	367.3	162
Tooth brushes			.75	
Tea	171.75			

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Typewriter ribbons		.5		
Wire nails	100.5			
Wire rope	88.5		17	
X-Ray films	1			14.5
Blasting caps	1.4			
Transformers				6
Wire cloth			3.5	
Padlocks				2.5
Hooks, eyes, buttons, needles			7.5	
Electric motors			4.5	
Trucks				155
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	26,011.96	9,622.37	7,215.06	8,928.87

May 31, 1943

Telephone Conversation with Mr. Gromyko
of the Soviet Embassy

Mr. Gromyko of the Soviet Embassy telephoned me May 31, in the morning. Mr. Gromyko said that he had received a message from his Government to be communicated to Secretary Morgenthau. I replied that Secretary Morgenthau would not be in town this week and might not be in for the next two weeks. Mr. Gromyko asked whether it was possible that I might be in touch with him within the next few days. I said that there was that possibility. Mr. Gromyko then asked me to transmit the following message to Secretary Morgenthau:

His Government (the U.S.S.R.) is definitely interested in participating in the discussions on the International Stabilization Fund. It had not sent any delegates up to now because of an apparent misunderstanding. He said that the letter which Mr. Berle sent to the Embassy sometime ago had stated that the United Nations would send their experts to Washington and that the draft of the proposal would be circulated to the other United Nations. The Russian Government had assumed that they would be notified more specifically as to the proposed time of the meetings and had been awaiting word from the U. S. Government. They now understood that we expected them to send experts as soon as convenient. (When the Secretary spoke to the Ambassador just before the Ambassador left for Moscow, it was made clear to the Russian Embassy here that the letter which they had received from Mr. Berle was supposed to represent the complete invitation and presumably the Ambassador had explained the matter to his Government when he reached Moscow.)

The message which Mr. Gromyko said he was asked to transmit to Secretary Morgenthau was just received from Moscow (probably as a result of the Ambassador's arrival and explanation there). Mr. Gromyko asked me to let him know when I had transmitted that message to the Secretary and whether there was any reply to it.

H. D. White



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. 87 - Aircraft Despatched
- for week ended May 25, 1943.

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

May 31, 1943.

MOST SECRET

STATEMENT NO. 87

Aircraft Despatched from the United States
Week Ended May 25th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Catalina IV	U.K.	U.K.		3	
Catalina IV	Canada	Canada			2
Liberator GR V	Canada	Canada			1
Liberator GR V	Bahamas	Nassau		3	
Liberator GR V (A)	U.K.	U.K.		6	
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.	20		
<u>BEECHCRAFT</u>					
Beechcraft	Mombasa	Mombasa	2		
<u>CURTISS</u>					
Kittyhawk	New Zealand	Auckland	6		
<u>DOUGLAS</u>					
Boston III A	U.K.	U.K.		1	
Dakota III	U.K.	U.K.		2	
Dakota III	India	Bombay		3	
Dakota III	S'Africa	S'Africa		1	
Dakota III	M.E.	M.E.		13	
<u>FAIRCHILD</u>					
Cornell PT 26	M.E.	Suez	21		
<u>LOCKHEED</u>					
Hudson III A	U.K.	U.K.		16	
Ventura	New Zealand	Auckland	7		
<u>GLENN MARTIN</u>					
Baltimore III A	M.E.	M.E.		1	
Baltimore IV	M.E.	M.E.		13	
<u>NORTH AMERICAN</u>					
Harvard	M.E.	Suez		10	
Harvard	S'Rhodesia	Capetown		18	
Harvard	Mombasa	Mombasa		3	
Harvard	S'Africa	Capetown		5	
<u>VULTEE</u>					
Vengeance	India	Bombay	5		
<u>VEGA</u>					
Ventura GR V	U.K.	U.K.		5	

MOST SECRET

- 2 -

Statement No. 87 (Cont'd)

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>STINSON</u> Reliant	Trinidad	Trinidad		4	
Total			97	71	3

(A) Including one exported week ended May 18th.

Please note - In Statement No. 83 for week ended April 27, four Dakota III for India have been diverted to Middle East. Statement No. 84 week ended May 4, one Dakota III for India has been diverted to Middle East.

Movements Division,
British Air Commission

May 29, 1943.

BOARD OF ECONOMIC WARFARE
OFFICE OF EXECUTIVE DIRECTOR
WASHINGTON, D. C.

May 31, 1943

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Enclosed is a copy of the report entitled, "Japan's
War Economy - 1943."

This report was mentioned for discussion under Item 1
of the Agenda for the June 3 meeting of the Board of Economic
Warfare which was distributed on Saturday.

Sincerely yours,

Nils Persius
Executive Director

Enclosure

165

EP-60
[REDACTED]

Copy No. 114

BOARD OF ECONOMIC WARFARE
Enemy Branch

JAPAN'S WAR ECONOMY - 1943

CONFIDENTIAL

March 1943

32-2242

Summary and Conclusions

The position of Japan's war economy may be summarized as follows:

1. During the past twelve years, Japan has continuously accumulated stockpiles of combat armament. Wastage of these supplies has been relatively small even since December 7, 1941. Thus, Japan has on hand the equipment to support offensive action on a large scale for a considerable period of time. Japan's capacity to produce war materials, however, is less than that of the chief belligerents - Britain, Russia, the United States, and Germany.

2. Japan now holds the raw materials required to expand its productive system, but lacks the shipping and processing capacity to exploit these resources fully. Japan is handicapped by (a) deprivation of former imports of processed materials, (b) certain technological limitations, and (c) the growing losses and attrition imposed by the war. These handicaps limit the rate at which Japan can increase its industrial processing capacity, including that required for turning out ships and combat armament.

Thus, Japan's economic difficulties are not due to an inability to maintain current levels of production, but rather to the limitations Japan faces in its effort to achieve a large-scale expansion of production. Yet such a large-scale expansion is required if Japan is to retain its present relative position in the face of the growing power of the United Nations.

3. The ability of Japan to keep pace with the growing strength of the United Nations depends mainly on the intensity of the military and naval interference which is exerted against Japan. The extent of such interference will determine whether Japan can (a) continue to build up armament reserves; and (b) proceed with the organization of basic industrial capacity in order to secure a large-scale expansion of production. To date the greatest single retarding factor in the latter respect has been the sinking of Japanese merchant shipping. Sinkings have exceeded launchings during the past six months. To meet this threat, Japan has already undertaken a program which will rapidly increase the tonnage under construction. In spite of this program, if the current rate of sinkings is maintained, Japan's shipping position will deteriorate throughout the remainder of 1943, but launchings will approximately equal sinkings by the end of the year.

4. Because of (a) the lack of sufficient industrial equipment, (b) the threat to Japanese shipping, (c) the expanding power

of the United Nations, and (d) the possibility of the defeat of Germany, Japan has decided to center attention on the resources of the Inner Zone (Japan Proper, Korea, Manchuria, North China and Formosa) rather than on the resources of the Outer Zone (Central China and the southern regions). Certain developments - notably of oil - are necessarily being carried out in the south. But it seems clear that Japan is putting aside the opportunity for large-scale development of the newly conquered areas in order to concentrate on intensive development in the Inner Zone, even though this choice involves an economic sacrifice.

The greater the intensity of United Nations' action in the Far East and the weaker the position of Germany, the greater will be the trend toward (a) a stockpiling of strategic materials from the Outer Zone to strengthen the Inner Zone and (b) the development of these industrial plants and those raw materials which will provide the highest possible measure of self-sufficiency within the Inner Zone. Loss of the Outer Zone would deprive Japan of a major source of war materials; but if this loss were postponed until 1944 or later, the stockpiling program, combined with expansion of Inner Zone capacity, would have reached a stage adequate to cover several years' requirements.

The greatest weakness of the Inner Zone lies in its concentrated industrial areas, both in Japan Proper and Manchuria. The industrial centers of Japan Proper, in particular, are highly inflammable. A program for the decentralization of certain strategic industries, under way for some time past and now being accelerated, will partially eliminate this weakness.

Retention of the principal areas of the Inner Zone - and continued development of their resources - is indispensable to the Japanese war economy.

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The Japanese stopped publishing data on most of the subjects treated in this report several years ago. Japanese periodicals, such as the Oriental Economist, have supplied some materials as late as 1940-1941. However, the bulk of the factual data was derived from specialized studies prepared by BEW analysts over the past year.

I. TRANSPORTATION

Summary

Shipping is the most important limitation on Japan's program for economic expansion. It is the only aspect of Japan's economy which has as yet been significantly impaired by the United Nations. Japanese shipbuilding will expand throughout the current year, but if the present rate of sinkings of Japanese ships continues, the rates of new construction and sinkings will not balance until the end of 1943.

Rail transport is also under strain in all parts of Japan's new empire. Additional economic expansion in Japan Proper will require that new rolling stock, replacements, and repairs be increased before the end of 1943. Japan's hope of building a continental rail line from Manchuria to Singapore is not likely to be realized this year due to Chinese interference; the rail lines connecting Indo-China, Thailand and Burma are going forward and will be completed unless halted by action of the United Nations.

As in the case of all other belligerent countries, transportation is a most important present and prospective economic weakness of Japan.

Shipping

Shipping. A Basic Weakness. Japan must move by sea a major percentage of iron ore, coking coal, and bauxite for munitions output, over sixty percent of its petroleum and about seventy percent of the coal for power production. Japan must also move troops, munitions, and supplies to the Greater East Asia sphere fighting fronts, largely by water.

To meet the growing strain on shipping, Japan is (1) extending rail lines in Indo-China, Thailand and Burma so as to relieve the strain on shipping to the fighting fronts in that area (these lines are as yet incomplete); (2) rapidly increasing the self-sufficiency of North China, Manchuria, and Korea (which will not only lessen the dependence on supplies from Japan Proper, but will also reduce the volume of tonnage required from Southeast Asia); (3) developing local self-sufficiency in respect to civilian needs throughout the Greater East Asia sphere, and (4) adopting a program for rapid expansion of shipbuilding during the current year.

In spite of these developments present tonnage is quite inadequate for the full exploitation of the areas under Japan's control. By the end of 1942 Japan was barely able to satisfy minimum basic requirements.

It should be noted, however, that if the southern areas are covered from Japan so that Japanese shipping is driven back to the relatively short lines of communication between Japan, Korea, Manchuria and China, the present available tonnage would be entirely adequate providing it were not subjected to heavier losses.

The Shipping Position on January 1, 1943. On January 1, 1943, it is estimated that the total tonnage available for military and commercial transport was about 5,000,000 gross tons, which was a decrease of some 500,000 gross tons from the amount available on July 1, 1942. These figures may be broken down as follows:

Japan's Shipping Tonnage Position (gross tons)	
Tonnage available December 1, 1941 (vessels of 100 gross or over, including those under Chinese and Manchurian flags but excluding fishing craft, barges, etc.)	6,700,000
New Construction to January 1, 1943	320,000
Axis and French tonnage available	250,000
Allied tonnage captured	250,000
Vessels raised and repaired	80,000
Total merchant marine before subtracting losses	7,600,000
Vessels sunk by Allied action	1,600,000
Ordinary marine losses	70,000
Vessels seriously damaged in the war	450,000
Vessels laid up for ordinary repairs	400,000
Vessels captured which do not add to Japanese shipping potential (i.e. in essential local trade, etc.)	80,000
Ferries, floating canneries, etc., not suitable for ordinary commercial use	80,000
Total losses including vessels unavailable for use	2,680,000
Tonnage available January 1, 1943 for military and essential commercial use	4,920,000

Shipping Needs in 1943. Of the 4,920,000 gross tons available at the end of 1942, about 1,250,000 gross tons are needed to service army and navy needs in the South Pacific and Southeastern Asia. This leaves 3,670,000 gross tons available for essential non-military requirements. Japan's needs are estimated to be:

Southeast Asia, Philippines, N.E.I.	
Region	900,000 gross tons
Japan Coastal Services	1,500,000 gross tons
Manchuria, Korea, and China	1,500,000 gross tons
Total estimated requirements	3,900,000 gross tons

Thus by the end of 1942 Japan could not fully meet its needs from the ships on hand.

Shipping Position on July 1, 1943. New construction of steel ships aims at 1,000,000 gross tons for 1943, but actual construction is not likely to be over 650,000 gross tons. To this figure should be added an increase of about 60,000 to 80,000 gross tons salvaged. Thus, in the first half of 1943, Japan will be able to add 400,000 gross tons to its capacity. If losses continue at the 1942 rate there would be lost in the same period 560,000 gross tons—a figure which would outrun replacements. This fact, combined with loss of efficiency due to additional convoying, means that by July the amount of tonnage which could be moved would be inadequate to meet Japan's demands. If, however, shipping losses should materially decrease—say, by as much as 80,000 gross tons a month—it would be possible for Japan to establish the shipping balance needed to maintain its present war effort. Actually, it is unlikely that this balance can be established before the end of the year.

In order to achieve this balance, Japan is supplementing its output of steel vessels by an extensive program for the construction of wooden vessels in all areas under Japanese control in which such construction is possible. Large timber resources of good quality are available for this purpose. Although little can be expected from this source in the next few months, by the end of 1943 it appears probable that large numbers of new wooden vessels (most of them sailing vessels) will be operating along the Asiatic coast and in the coastal trade of Japan Proper. It is impossible to make any close estimate as to the tonnage that can be turned out in this way but roughly 700,000 tons of new wooden construction appears probable. This would be equivalent to 230,000 tons of modern shipping.

-4-

Land Transportation

Japan Proper Because of the mountainous character of Japan, very few rivers can be used for transport; nor is there a sufficient number of overland highways or trucks to make overland trucking of significance, except as feeders to rail terminals. Electric and steam rail lines, therefore, carry virtually all of the overland passenger and freight in Japan. By far the most important single line extends from Tokyo by way of Nagoya, Osaka, and Kobe to Shin-osaka and thence by a recently opened tunnel to the island of Kyushu through Moji and Fukuoka to Nagasaki. If this line were crippled at any point it would seriously hamper Japan's war effort.

Practically all of the lines in Japan Proper are narrow-gauge (3' 6") which restricts both speed and tonnage.

Present Condition of Equipment. There has been a tendency to neglect rail repair and replacements in favor of war production since July 1937. This fact, coupled with the great increase in traffic due to war operations, has resulted in a steady deterioration of equipment. The present rail facilities of Japan are adequate for minimum needs but cannot be expanded except at a considerable cost to war production. At present Japan, like Germany, must give priority to rail facilities if weaknesses, that are reaching a critical stage, are to be overcome. There has been a slight increase in the number of locomotives and freight cars since 1937, as the attached tables indicate, but the current program for transferring more coastal shipping tonnage to railroads will demand a continued expansion of rail facilities through 1943.

Continental Rail Facilities Under Japanese Control. The rail lines of Korea, Manchuria and North China are the most important in the Japanese occupied areas. These areas, together with Japan Proper, contain over 60 percent of the total rail transport under Japanese control. Rail lines in Korea and Manchuria, long under Japanese management, are the most efficiently operated of the continental rail lines in "Greater East Asia". Here again, however, (1) the emphasis on war production at the expense of maintenance and repair, (2) the heavy demands made upon these lines under the stress of war, (3) the possible need for shifting rolling stock to China (due to the war and guerrilla warfare), and (4) the considerable expansion of rail lines without a proportionate expansion of rolling stock have combined to create a situation in which losses through fighting or bombing could quickly become serious despite the adequate distribution of rail lines in the area.

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The Plan for a Continental Rail Line. There is clear evidence that Japan has been thinking in terms of the possibility of developing a continental rail line extending from Manchuria to Singapore. Assuming the successful seizure and protection of sections of this overland route still in Chinese hands it would be possible for Japan to complete, within one to two years, the gaps in a rail line extending from Manchuria in the north to Singapore and Burma in the south. There would be only one transshipping point on the line at the Indo-China border where the standard-gauge lines of China, Manchuria and Korea would join the meter-gauge railways of southeastern Asia. The four gaps in the proposed system at present are (1) about 125-200 miles of new track needed to connect Burma and Thailand; (2) about 140-185 miles (depending on the route selected) needed to connect Saigon and Phnom Penh in Indo-China; (3) the 300 mile section between Dong Dang, Indo-China, and Luichow, China which is already 60 percent finished; and (4) the dismantled sections of the Hanchow-Changsha or Hankow-Changchow lines (in areas now under Chinese control). Completion of this system would offer two important advantages:

(1) It would be possible to continue to provide important supplies to far distant outposts (though in considerably reduced volume) even if the Japanese sea lanes were dominated by the United Nations.

(2) It would provide a flexible system of land transport for servicing a series of air bases extending down the Asiatic coast for the purpose of protecting sea borne traffic by land-based air power.

It does not appear probable that any of the Chinese section can be completed during 1943.

New Lines in Southeast Asia. Japan is in a better position, however, to complete within a year a meter-gauge rail system covering Indo-China, Thailand, Burma and Malaya which can offer an alternative to sea transport in the area most distant from Japan Proper.

Reports indicate that Japan is now constructing a line to complete the 125 to 200 mile gap between Burma and Thailand. The 140-185 mile gap between Saigon and Phnom Penh had probably been closed by the end of 1942, with the exception of a bridge over the Mekong River itself, by laying light track over a good highway between the two cities. This would mean that supplies could be transferred to rail lines in northern Indo-China at Haiphong for transport to Japanese troops in any center in Southeast Asia. The volume would not be large, possibly only 200,000 tons a month each way, but the advantages would be considerable. The transfer of vital minerals and foodstuffs from Burma and Thailand overland to Saigon and Haiphong greatly reduces the strain on shipping in the hazardous waters around the Malay Peninsula.

TABLE 1
Railroad Transportation
(Tentative Estimates for 1943)

Region	Number of Miles	Gauge	Number Locomotives	Number Freight Cars	Number Passenger Cars	Metric Tonnage Capacity (14 millions)
Japan	15,475	3'6"	4,500 4,235 (1937)	80,000 73,184 (1937)	12,000 11,202 (1937)	150 122 (1937)
Korea	2,850	4'8 1/2"	100 315 (1937)	4,500 3,444 (1937)	900 754 (1937)	20
Formosa	2,225	Narrow	(no data - 15,041,000 tons carried in 1939)			
Manchuria	6,875	4'8 1/2"	2,600	30,000	3,500	63
Occupied China a/	5,200	4'8 1/2"	1,062	14,230	980	23 b/
Indo-China	1,800	meter (main lines)	287	3,815	616	1.268
Thailand	2,075	meter	200 (1939) c/	3,833 (1939) c/	322	1.667
Malaya	1,068	meter	228	5,850	500	1.8 (long tons)
Burma	2,058	meter	365	9,602	1,156	4
Philippines	850 (Gov't) 2,300	Narrow	483	4,400	17,165	1.547 Manila Ry. only
Netherlands East Indies	2,850	meter	1,316	27,140	3,614	10.5

a/ Lines and equipment under Japanese control.

b/ Estimates of civilians goods only moved in North China.

c/ It is reported that Japan provided Thailand with 90 "new" locomotives and 300 freight cars.

TABLE 2
Automotive Transportation
(Tentative Estimates)

Region	Miles of Auto Roads	Number of Trucks (Non-Military)	Number of Buses	Number of Passenger Cars
Japan	5,390 (concrete) 107,500 (gravel) 460,000 (dirt)	50,000	29,800	106,000 a/
Korea	19,155 miles 100 macadam	3,500	2,500	2,250
Formosa	10,000 improved 6,400 all year	1,242	1,368	1,390
Manchuria	23,750 seasonal use only	7,650	3,400	3,600
Occupied China b/		(no data)		
Indo-China	35,450 Asphalt 13,750 Gravel 1,800 Macadam	4,866	2,000	18,045
Thailand	2,500 Gravel and unimproved	5,150	770	6,000
Malaya	5,800 Improved 12,800 Dirt and unimproved	9,841	2,224	32,873
Burma	4,400 Main 2,800 Rural	3,004	4,330	13,875
Philippines	2,900 Improved 9,000 Unimproved	15,664	4,339	33,895

a/ Because of fuel shortage, number in actual use probably not over 25,000

b/ Figures to be supplied later.

II. RAW MATERIALS AND BASIC INDUSTRIES

Summary

Generally speaking Japan's raw materials supplies far exceed the capacity of the shipping and manufacturing industries to develop them. The supply of fibers, which is partially deficient, is an exception to this statement.

Steel production has been given a high priority for 1943 and will probably expand by about ten percent during the current year. Rolling mill capacity is the bottleneck in this industry. Oil production will probably expand more rapidly this year not only because of the reopening of oil producing areas in the Netherlands Indies but also because of the expansion of synthetic oil plants in Japan and Manchuria.

Insofar as shipping will permit, an increasing trend toward the stockpiling of strategic raw materials from South-eastern Asia in Japan Proper may be expected.

Oil

Estimated production and consumption of essential petroleum products by Japan during 1943 indicate a comfortable surplus. The figures (comprising aviation gasoline, motor gasoline, fuel oils and lubricating oils) may be summarized as follows:

	(Barrels)
Total production	68,110,000
Total consumption	50,660,000
Surplus	17,450,000

Actual or prospective difficulties, listed below, considerably modify this favorable picture.

1. Transport. It is estimated that present tanker tonnage is barely able to handle the essential requirements indicated by the above consumption figure. The present rate of sinkings is also thought to be higher than the estimated rate of new tanker construction and if continued will lead to a very critical situation during 1943.

2. Storage. Extensive demolition of storage tanks in the East Indies area was effected. This factor might impose further limitations on the production figure given above.

3. Technical Problems. Of these, the most serious is in the manufacture of high-grade lubricants.

Crude Oil Production. Specific information on Japanese oil-producing activities in the East Indies subsequent to the occupation is still lacking. Estimates by oil experts, however, indicate that Japanese production in the East Indies has already reached substantial amounts and should expand steadily in 1943. These estimates are based on the known potentialities of the East Indian oil fields, the extent of the demolition, and the drilling equipment available to the Japanese. They show that crude oil production in the East Indies may be expected to increase from an annual rate of 39,500,000 barrels on November 1, 1942 to 60,000,000 barrels on July 1, 1943. The following tables, giving a detailed summary of Japan's over-all position in essential petroleum products for 1943, are based on the above rates of East Indian oil production.

TABLE 3

Japan's Estimated Oil Position in 1943
(In 1,000 barrels)

Product	Stocks on Hand 1/1/43 (Including captured stocks)	New Supplies All sources 1943	Total Supplies 1943	Consumption (Total economy) 1943	Stocks on Hand 1/1/44
High Octane Gasoline	11,600	3,660	15,260	3,660	11,600
Motor Gasoline	6,000	21,020	27,020	5,800	21,220
Total Gasoline	17,600	24,680	42,280	9,460	32,820
Fuel Oils	25,700	41,950	67,650	39,000	28,650
Lubricating Oils	2,950	1,430	4,430	2,200	2,230
Total Products	46,250	68,110	114,360	50,660	63,700
Crude Oil Equivalent	51,150	75,500	126,650	56,000	70,650

TABLE 4

Japan's Estimated Oil Production by Sources, 1943
(In 1,000 barrels)

Product	Japan & Formosa (crude)	Karafuto (crude)	Manchuria (shale oil)	Japan, Korea, Manchuria (synthetic) ^{a/}	East Indies (crude)	Totals
High Octane Gasoline	400	-	-	360	2,900	3,600
Motor Gasoline	<u>520</u>	-	<u>1,200</u>	<u>6,300</u>	<u>13,000</u>	<u>21,020</u>
Total Gasoline	920	-	1,200	6,660	15,900	24,680
Fuel Oils	1,150	550	1,750	5,500	33,000	41,950
Lubricating Oils	<u>530</u>	<u>200</u>	-	-	<u>500</u>	<u>1,430</u> ^{b/}
Total Products	2,600	750	2,950	12,160	49,400	68,110
Crude Oil Equivalent	2,850	900	3,500	13,300	54,700	75,500 ^{b/}

^{a/} Includes substitute products at following equivalents (in barrels); coke and gas (1,410,000); benzol (1,000,000); alcohol (500,000).
^{b/} Includes 250,000 barrels of substitute lubricating oils.

Refining Capacity. The above production estimates assume that Japan has sufficient refinery capacity to process the large anticipated East Indian output of crude petroleum. Present estimates indicate that this capacity is available and in operation with a considerable excess capacity in Japan not in use. The estimates are as follows:

	Barrels
Estimated East Indies production, 1943	54,700,000
Natural fuel oil	<u>12,036,000</u>
Quantity to be refined	42,664,000

Estimated 1943 refinery output in East Indies:	Barrels
Pladjoe refinery	15,000,000
Lutong refinery	7,200,000
Balikpapan refinery	<u>3,500,000</u>
Total	25,700,000

East Indian crude oil to be refined, 1943	42,664,000
To be refined in the N.E.I.	<u>25,700,000</u>
East Indian crude to be refined in Japan	16,964,000

Refinery capacity in Japan	34,000,000
Required for local production	<u>7,000,000</u>

Available refinery capacity in Japan for imported crudes	27,000,000
East Indian crude to be refined in Japan	<u>16,964,000</u>

Apparent excess refinery capacity in Japan during 1943	10,036,000
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The Pladjoe refinery is the crucial factor in the above tabulation. Reports on the current status of this refinery are conflicting. To meet the production quotas assigned (Tables 3 and 4); the Pladjoe refinery would have to have reached a processing rate of some 12,000,000 barrels per year as of January 1943 and a rate of 18,000,000 barrels by July 1943. By the latter date the Japanese will have had some 15 months in which to completely rehabilitate the refinery. Demolition at Balikpapan and Lutong is reported to have been complete, but those plants, too, are now considered to be in operation at rates which will process the above total in 1943. Under war conditions very simple refining equipment can suffice to process the fuel oils which form the largest part of total consumption.

In fuel oils, Japan will be entirely dependent on East Indies production by March 1, 1943, except for the limited amounts produced at home. For the supply of these bunker and Diesel oils, a large East Indian output of the scale here anticipated is essential.

In gasoline, Japan is well fortified by large stockpiles of motor and aviation gas accumulated before the war started. If necessary, production of high octane gasoline can be increased by hydrogenation of part of her excess stocks of motor gasoline. The Plinjee refinery, moreover, had a capacity of 625,000 barrels per year of 100 octane fuel. Capacity of this plant for 92 octane fuel, on which Japanese planes are reported to operate, would be rated at about 780,000 barrels a year.

In high-grade lubricating oils, Japan's position is less strong. The stockpile held at the outset of the war is not sufficient to cover the needs of a protracted conflict. It is not certain that Japan possesses the specialized knowledge needed to make the high-grade oils required for aviation and motorized equipment, although German technicians may have filled this gap. East Indian crudes are not very adaptable to the making of lubricants; in normal times, virtually no lubricating oils were made from these crudes. It would seem therefore that Japan will have to depend heavily on its hydrogenation equipment to supply high-grade lubricants in the amounts required for a long war, or else change to the use of inferior lubricants with consequent inferior performances. The best clue to this potential weakness should be supplied by analyses of lubricant samples from captured enemy equipment.

Consumption and Transport. Assuming that production goals were met in accordance with the above estimates, Japan would still be faced with a formidable transport problem. Large amounts of crude oil, aggregating nearly 17,000,000 barrels in 1943, must be carried from the East Indies to Japan for refining. In addition, considerable quantities of the gasolines and fuel oils used by the Japanese navy, army and merchant marine must be shipped from Japan or the East Indies to the fighting fronts. Table 5 shows an estimated breakdown of consumption by principal uses.

TABLE 5

Japan's Estimated Consumption of Oil Products by Uses, 1943
(In 1,000 barrels)

Product	Navy	Army	Merchant		Total
			Marine	Civilian	
High Octane Gasoline	1,520	2,140	-	-	3,660
Motor Gasoline	-	4,880	-	1,000	5,880
Total Gasoline	1,520	6,940	-	1,000	9,460
Fuel Oils	27,000	-	7,000	5,000	39,000
Lubricating Oils	870	470	300	560	2,200
Totals	29,390	7,410	7,300	6,560	50,660

According to these estimates, Japan would be expected to use 50,660,000 barrels of gasolines and oils in order to satisfy full requirements during 1943.

The effective tonnage capacity of the Japanese tanker fleet during 1943 may be roughly estimated at 350,000 tons. This estimate allows for sinkings and damage, replacements, and assignment of 12 tankers to the native fleets. On the basis of 12 voyages per year per ship, the effective carrying capacity would be 4,200,000 tons, or approximately 30,000,000 barrels.

The basic transportation problem is approximately as follows:

1. The movement of the estimated 17,000,000 barrels of crude from the Indies to Japan for refining;
2. Movement of oil products from refining centers to various points of consumption in the Japan, Korea, Manchuria, North and Central China areas;
3. Supply of fleet units and fighting forces in the southwest Pacific and other outlying bases and military areas from the production centers in the East Indies; and
4. To fill other minor and local needs in the Occupied Areas.

It is now estimated that Japan's existing tanker tonnage is just about able to meet these basic or essential requirements, and no more. There had been earlier reports that the tanker fleet was not fully employed, suggesting that the movements of oil were not occurring on the scale required by the above consumption estimates. However, present indications are that the full tonnage is being used, and it is further thought that if tanker losses continue at the present rate Japan's oil consumption will be limited by a tanker deficiency in 1943.

Steel

Japan's Steel Position. During 1942, Japan's steel production reached an estimated rate of 8,750,000 ingot tons and 6,300,000 metric tons of open-hearth and electric furnace steel for finished products. This output is not so small as to prevent Japan from engaging in extensive military operations, but it is small enough to restrict over-all ability of the Japanese to produce vessels, munitions and other heavy equipment and to expand production facilities.

Production rates and capacities attained during 1942 may be estimated as follows:

	<u>Production</u> (metric tons)	<u>Capacity</u> (metric tons)
Pig Iron	6,160,000	8,269,000
Gross Steel Ingots	8,750,000	9,526,000
Semi-Finished Steel,		
Total	6,300,000	6,300,000
Alloy Steels	1,200,000	
Cast Iron	800,000	800,000

The primary limitation on Japan's steel output is processing capacity. Particularly serious is the lack of rolling mill capacity, which holds the production of finished steel below the point at which it could be maintained by current open hearth and electric furnace capacity and by blast furnace capacity. The latter in the order named, are secondary bottlenecks which must be removed to permit the further expansion of the iron and steel industry as projected. Raw materials of all essential types are available to Japan in ample quantities for present needs and in sufficient amounts to permit an increase of 25 percent in iron and steel output. Manpower is adequate for existing needs and for a moderate expansion, although any considerable plant expansion would probably have to overcome a shortage of skilled labor and technicians. Transportation represents a potential weakness. Large amounts of iron ore,

cooking coal and ferro-alloys must be obtained from sources outside Japan proper. Cargo vessels were available, however, in adequate volume for these shipments at the beginning of 1943. Rolling mill capacity is, therefore, taken as the primary limiting factor in the following detailed estimate of basic capacity and output in the industry:

TABLE 6

Estimate of Japan's Basic Steel Capacity and Output, 1943

	Utilized	Capacity
	(metric tons)	
1. Iron Ore	15,750,000	19,250,000
2. Metallic Iron in Ore (av. 45-1/2 percent of Item 1)	7,073,000	8,760,000
3. 5 percent Loss in Concentrating	- 353,000	
4. Total Fe from Iron Ore	6,720,000	
5. Sponge Iron (For use in electric furnaces - see item 14)	- 400,000	400,000
6. Blast Furnace (In terms of pig iron product)	6,320,000	
7. Coke Charge in Blast Furnaces	6,320,000	11,715,000
8. Blast Furnace Losses (2-1/2 percent)	- 160,000	
9. Iron Content of Pig Iron Total	6,160,000	8,269,000
10. Foundry Pig Iron (For iron castings--see item 8 below)	- 1,000,000	
11. Pig Iron Available for Steel Making	5,160,000	
12. Scrap Supply to Open Hearth Furnaces (40 percent max)	+ 3,440,000	
13. Total Fe in Open Hearth Furnace Charge	8,600,000	
14. Total Fe in Electric Furnace Charge (from item 5)	+ 400,000	

TABLE 6 (Cont'd)

	Utilized (metric tons)	Capacity
15. Total Fe Charged to Steel Furnaces	9,000,000	
16. Less Melting Losses (Approx. 3 percent)	- 250,000	
17. Gross Steel Ingots (Open-hearth and electric)	8,750,000	9,526,000
18. Less Cropping Losses (20 percent)	<u>-1,750,000</u>	
19. Gross Open-hearth and Electric Furnace for Finishing Steel Processed (Rolling Mill Steel 6,700,000) (Cast Steel 300,000)	7,000,000	
20. Loss in Finishing (10 percent)	<u>- 700,000</u>	
21. Open-Hearth and Electric Furnace Steel for Finished Products	6,300,000	6,300,000
<u>Recapitulation</u>		
A. Total Steel (sheets, plates, shapes, rods, castings, etc.) for Use in Manufacturing Finished Articles	6,300,000	
B. Total Cast Iron for Use in Finished Articles (from Item 10 above, allowing 20 percent loss)	<u>1,800,000</u>	800,000
C. Total Steel and Iron	7,100,000	

During 1943, rolling mill capacity will continue to be the principal limitation of Japan's steel production. Scheduled construction calls for the completion of an additional 1,400,000 tons of rolling mill capacity up to 1943-44. This expansion will necessarily be attained at a slow rate and there are definite indications that the construction of new rolling mill capacity has lagged behind other phases of the Japanese iron and steel expansion program. In 1943, perhaps an additional 700,000 tons of rolling mill capacity beyond the figure shown

in the above table will be available to Japan. This addition will account for newly-commissioned mills, for small but unknown capacity in Japanese Navy yards, and for the increased effectiveness brought about by strict rationalization of production, giving a total rolling-mill and steel-casting capacity of about 7,000,000 metric tons. To supply its rolling mills and foundries operating at this rate, Japan would require an open-hearth and electric furnace capacity of 9,722,222 metric tons of gross steel ingots, a figure slightly above estimated ingot capacity in 1942, which is placed at 9,526,000 metric tons. By expanding all of the foregoing to the point where present blast furnace capacity could be used, Japan could produce almost 12,000,000 tons of gross steel ingots and about 8,500,000 tons of steel for finished articles. The following table shows details of capacity and projected construction:

TABLE 7

Iron and Steel Furnaces and Primary Rolling Mills

Summary of Capacities

	Totals as of 1937	As scheduled through 1941	As planned to 1943-44
(metric tons per year)			
Blast Furnace Capacity (Pig Iron)	3,332,000	8,269,000	9,849,000
Steel Furnace Capacity (Ingots)	7,660,000	9,526,000	10,766,000
Primary Rolling Capacity (Slabs, billets, blooms)	4,930,000	6,030,000	7,446,000
Coke Oven Capacity (Coke)	---	14,519,000	---

Raw material supplies now under Japanese control are more than adequate to maintain production of 6,300,000 tons of finished steel and 300,000 tons of cast iron. For the essential raw materials, Japan's position is estimated as follows:

1. Iron Ore. Japan will utilize only about 7,100,000 tons of iron (metallic content) of the 8,760,000 available in the next twelve months. The latter figure could be increased still further by more intensive exploitation of Philippine and Malayan iron ore reserves.
2. Scrap. Most of the 3,440,000 tons required will be obtained from mill croppings and recovery (2,650,000), final handling of steel products (530,000), conquered areas and stockpiles (160,000).
3. Coking Coal. Total coke oven facilities under Japanese control would supply more than 14,500,000 tons of coke, of which an estimated 80 percent, or about 11,715,000 tons, would be suitable and available for pig iron production. This much coke would support an output of 12,400,000 metric tons of finished steel.
4. Limestone and Cleansing Agents. Adequate supplies of ferro-manganese and ferro-silicon, and apparently of fluorspar are available.
5. Ferro-alloy Ores. Supplies and stockpiles are sufficient to maintain a 20 percent alloy-steel ratio for all present and projected levels of steel production. Details of Japan's position in this crucial field of the alloys are given in the following table:

TABLE 8

Japan's Estimated Supply Position with Respect to Ferro-Alloys, 1943
(Reference is to the entire area now controlled by Japan)

Metal	Estimated stocks on hand 1/1/43	Estimated New Supplies 1943	Estimated Consumption 1943	Estimated stocks on hand 1/1/44	Appraisal of Japanese position	Remarks and qualifications
Manganese (metric tons Mn)	300,000 or less	91,500	70,000-100,000	291,500-327,500	Stable	Production can be expanded if needed.
Chromium (metric tons Cr)	30,000-40,000	43,000 potential	15,000-30,000	43,000-68,000	Improving but not secure	Production is potentially far in excess of needs but 93 percent comes from the Philippines
Nickel (metric tons Ni)	4,000	12,500	10,000	6,500	Improving but not secure	Supplies are potentially ample, but if production in the Celebes (more than 70 percent of total) were interrupted, the situation would be critical.
Tungsten (metric tons 60% W ₂ O ₃)	10,000 or more	14,800 potential	6,000	18,800 potential	Improving	Tungsten position assured indefinitely assuming continued access to Burma, and, by smuggling and currency manipulation, to Free China.
Molybdenum (metric tons Mo)	2,460 or less	150	4004	2,210	Strong	Since the tungsten supply is ample, the molybdenum situation becomes unimportant.

TABLE 8 (Continued)
Japan's Estimated Ferro-Alloys Supply Position, 1943

Metal	Estimated stocks on hand 1/1/43	Estimated Flow Supplies 1943	Estimated Consumption 1943	Estimated stocks on hand 1/1/44	Appraisal of Japanese Position	Remarks and qualifications
Cobalt (metric tons Co)	In manu- factures only	116- 266	100	16- 166	Insecure, but unim- portant	Other ferro-alloys can sub- stitute. All but about 16 m.t. will come from the Bandwin Mines which are not secure from damage.
Vanadium (Metric tons V)	At least 650	400	150	900	Improving	Productive capacity poten- tially ample and stocks on hand equal at least 4 years' supply. Tungsten can substitute.

Since large amounts of iron ore, pig iron and coking coal, and virtually all the ferro-alloy ores, have to be brought to Japan Proper by sea routes, ocean transportation is a critical factor in maintaining the levels of steel production already reached. If southern ores are to be fully utilized, estimated tonnages to be carried for current levels of production are as given in the following tables. Cargo vessels currently available are believed more than adequate to handle these tonnages. Further substantial losses of merchant shipping, however, would make it necessary for Japan either to limit very strictly its other uses of shipping or to increase iron ore production in the Inner Zone and Central China.

TABLE 9
Shipments of Iron Ore and Pig Iron to Japan
(in metric tons)

From	Ore	Ore Concentrates	Pig Iron
Malaya	1,400,000		
Philippines	1,300,000		
Yangtze Valley	600,000		
North China	500,000		100,000
Manchuria	260,000		1,000,000
Korea		2,000,000	600,000
Totals	4,060,000	2,000,000	1,700,000

Shipments of Coking Coal for All Purposes
Within the Empire

From	To	Metric Tons
North China	Japan	4,500,000-5,000,000
Karafuto	Japan	1,500,000-2,000,000
North China	Manchuria and Korea	1,000,000
		7,000,000-3,000,000

Recapitulation

Commodity	Tonnage	Shipsloads (5,000 tons average)
Iron ore and pig iron	7,760,000	1,552
Coking coal	7,000,000-8,000,000	1,400-1,600
Ferro-alloys	14,760,000-15,760,000	108
		3,060-3,260

Other Raw Materials

Estimates in the accompanying chart which pictures Japan's raw materials position are made with reference to the needs of Japan's war economy as represented by the industries of Japan, Korea and Manchuria. In connection with foodstuffs and fertilizers, only the needs of Japan Proper are considered.

Ferro-Alloys. The ease with which ferro-alloys can be substituted for one another tends to make Japan's general ferro-alloy situation relatively secure. There are, however, at least three weak points apart from the general factor of shipping. Some 93 percent of the chromium production available to Japan is concentrated in the Philippines; a relatively small area in the Celebes produces over 60 percent of the nickel supply; and nearly all of Japan's cobalt must come from the Bawdwin Mine in Burma. In addition, while tungsten supplies are potentially far in excess of needs, and tungsten has been offered to Germany by Japan, the two chief sources of supply, Free China (by smuggling), and Burma, cannot be considered entirely secure.

Non-Ferrous Metals. Sources of bauxite, alumite and aluminous shale are potentially sufficient to meet the needs of Japan's capacity for producing finished aluminum. All of Japan's bauxite, however, must be shipped over long distances; some 60 percent of the total production is concentrated in the Bintan-Singapore area. Production of magnesium in Japan and Manchuria is potentially far in excess of needs.

Production of lead and zinc is potentially in excess of needs, but in both cases the shipping factor is important, and interruption of production at the Bawdin Mine would create a tight situation. Although stocks of copper are sufficient for several years, assuming a continued production of new supplies at the estimated rate for 1943, eventual depletion of the stockpile is believed to be inevitable. Aluminum is, however, a possible substitute in many important uses.

Stocks of mercury are very large, but proven production available in Japanese Asia is insignificant. Japan is known to be making strenuous efforts to prevent the depletion of stocks by the development of deposits of cinnabar in North Borneo, and by smuggling from Free China and blockage running from German Europe. Japan's position with respect to both antimony and platinum is uncertain. Unless antimony can be smuggled out of Free China, supplies appear to be inadequate.

TABLE 10
Summary of Japan's Supply Position with Respect to the Basic Raw Materials
(at the beginning of 1943)

Commodity group	Adequate supplies			Inadequate supplies	
	Adequate within the Inner Zone	Surplus within Occupied Areas available for export	Adequate but dependent on shipping from the Outer Zone	Deficient on adequate stocks	Deficiency to be relieved by smuggling
Iron ore and ferro-alloys	Iron ore Vanadium	Tungsten	Manganese Nickel Chromium Cobalt	Molybdenum	
Non-ferrous metals	Alumite, etc. Magnesium Silver Arsenic	Tin	Bauxite Lead Zinc	Copper	Mercury Antimony Platinum
Fuels			Coal		
Miscellaneous non-metallic minerals	Fluorspar Graphite Mica		Petroleum	Asbestos	Diamonds
Basic Materials	Sulphur Nitrogen	Sugar			
Chemical Industry					
Raw Fibers	Abaca Sisal Kapok Silk		Abaca Sisal		Jute Cotton Wool, Wood pulp for staple fiber and rayon

TABLE 10 (Continued)
Summary of Japan's Supply Position with Respect to the Basic Raw Materials
(at the beginning of 1943)

Commodity	Adequate supplies		Inadequate supplies	
	Adequate within the Inner Zone	Surplus within Occupied Areas available for export	Deficient but dependent on shipping from the Outer Zone	Deficiency to be relieved by smuggling
Staple foodstuffs	Fish Soybeans Wheat	Rice Tea Fats and Oils		No known additional sources available
Fertilizers				
Miscellaneous		Bristles Quinine Rubber	Leather Lumber	Organic fertilizers Nitrates Phosphates Potash
			Vegetable tanning materials	

Production of platinum in Japanese Asia is insignificant, and Japan is therefore almost totally dependent on smuggling and on stocks of unknown size.

The available production of tin is many times Japan's requirements. It is believed that Japan is making efforts to run tin through the blockade to Germany in exchange for mercury, machine tools, and other materials in which Japan is deficient.

Requirements for silver are highly flexible. Japan can probably use as much as can be conveniently had, but this metal is not essential. There is a substantial production within the home islands. Japan has been a regular exporter of arsenic in the past.

Miscellaneous Non-Metallic Minerals. Japanese requirements for fluorspar are flexible and Japan should have no difficulty in meeting them. Production of graphite, both amorphous and crystalline, is believed ample. Production of mica is sufficient only if the Korean deposits can be made to yield enough of the high grade necessary for critical uses. If not, Japan will be dependent on smuggling for high grade mica. Production of asbestos is only about one-fourth of needs, but Japan has stocks sufficient for several years. It is believed that Japan faces a shortage of industrial diamonds unless they can be smuggled in, but in all except a few critical uses artificial abrasives probably can be substituted.

Materials Basic to the Chemical Industry. Although salt production in Japanese-controlled areas can probably be expanded to meet Japan's needs, it is possible that at the present time a shortage of salt due to the shipping situation may be a somewhat limiting factor in the production of such basic chemicals as caustic soda and soda ash. In addition, Japan faces the necessity of building stocks of salt against the possibility of a drop in production because of unfavorable weather conditions. Supplies of sugar for the production of alcohol are potentially ample, but in view of the shipping situation, Japan is known to be making efforts to use domestically available starches for alcohol production in order to alleviate the necessity for importing sugar. There is, however, a substantial sugar surplus in some of the occupied regions, and some of this may be available to Germany if it can be run through the blockade. Sulphur production in Japan Proper is adequate. Production of nitrogen is probably adequate for military uses, but a shortage of nitrogen for fertilizers has been reported. Supplies of coal for the manufacture of coke even by-products are sufficient assuming adequate shipping.

Raw Fibers. In the past a large part of silk production has been for export purposes. Production has been allowed to decline somewhat since the outbreak of the war. There is still a surplus, however, some of which will be used to substitute for other textile fibers in which Japan is short, and some of which may be run through the blockade to Germany. The Japanese situation with regard to cotton and wool is very tight, possibly critically so. Kapok will be mixed with these fibers, and will be made to substitute to some extent in padded clothes, but it is believed that Japan will have serious difficulty in meeting even essential consumer needs in some of the occupied territories. Consumption of kapok will be increased many times because kapok can be substituted partially for cotton and wool, but it is believed that there will still be a surplus available for Axis Europe:

With the loss of imports of high grade pulp wood from Scandinavia, the United States and Canada, Japan will face some difficulty in making enough satisfactory rayon and staple fibers from the low quality wood and reed pulps now available. Of hard cordage fibers, abaca and sisal, Japan will have ample supplies, both for itself and for possible trade with Germany, providing they can be shipped. Of jute and other fibers suitable for bagging, Japan may face a shortage which may impede its ability to transport such products as grains and sugar.

Staple Foodstuffs. Japan is nearly self-sufficient in most of the foodstuffs basic to its normal diet. Soybeans and wheat, in which Japan tends to be somewhat deficient, are available in Manchuria and North China. Japan has abnormally large stocks of rice on hand at the present time in addition to potentially very substantial imports from occupied areas. Although crop yields in Japan Proper are declining at present as a result of shortages in agricultural manpower and fertilizers, it is unlikely that Japan will allow any considerable depletion of stocks. Of hog Japan has an exportable surplus which may be available for trade with Germany. Japan also has a surplus of fats and oils which likewise are desperately needed by Germany.

Fertilizers. Japan faces a continuing shortage of almost all important fertilizers. The amount of self-supply manures is expected to decline because of the lack of experienced manpower for making compost. Of commercial organic fertilizers--soybean cake, other oil cakes, fish waste, pupae waste, and bone meal--the only kind of which there is a normal supply is soybean cake, and this is not believed to be susceptible of much expansion. Shortages of all important chemical fertilizers, ammonium sulphate, calcium cyanamide, sodium nitrate, phosphoric acid fertilizers, and potash fertilizers have been reportedly

reported. The shortage of fertilizers will probably not be critical unless Japan loses access to the surpluses of foods in the regions now under its control, but Japan may be faced with the necessity of choosing between allowing home production of food to fall to a possibly dangerously low level, and using shipping space that could be more economically used in transporting food itself, to transport fertilizers from the occupied regions.

Miscellaneous. Supplies of bristles potentially available to Japan from Manchuria and North China are about ten times the requirements. Some may find their way through the blockade to Germany. The supply of hides and leather is probably adequate for minimum military and essential civilian needs. Stocks of vegetable tanning materials are sufficient for several years but it is believed that new supplies are not sufficient to prevent the steady deterioration of the stockpile. Supplies of chrome tanning materials are believed to be adequate assuming continued access to chromium in the Philippines.

Japan now controls most of the world's production of guanine and rubber, and at least some of the surplus of these products finds its way to German Europe through the blockade as payment for goods needed by Japan from Germany.

III. ELECTRIC POWER

Summary

Japan's electric power output seems adequate to handle current levels of production, although reserve capacity becomes critically low during the winter months. Stocks of coal at steam plants in the Tokyo-Osaka-Nagoya area have been exceedingly low; operation of these plants is critically dependent on an unrestricted transport of coal supplies.

Moderate expansion of electric power facilities, limited to about 10 percent in 1943, can probably be achieved. In case of need, a considerable portion of steam generating plants in China, the Philippines, and Southeastern Asia aggregating some 1,500,000 kilowatts of installed capacity could be moved to Japan.

Capacity

The total rated capacity installed in the Inner Zone^{1/} was approximately 17 million kilowatts as of January 1, 1943. Of this total, 9.3 million kilowatts was installed in hydro-electric generating stations and 7.7 million kilowatts in steam electric stations. Japan Proper contributed 13.2 million kilowatts, Korea 2.0 million, Manchuria 1.4 million, and Formosa 0.4 million.

Power Available During 1943

The Inner Zone will produce approximately 75 billion kilowatt-hours of electric energy during 1943, unless drought is serious and widespread, shipments of coal are interfered with, or important plants are destroyed by aerial attack. Over two-thirds of this energy will be produced by hydro-electric generating stations. Practically all of the remainder will be produced by steam electric stations.

After allowing for transmission and distribution losses, approximately 64 billion kilowatt-hours of electric energy will be available for utilization by the Japanese war industries and other consumers. Approximately 14 billion kilowatt-hours will be used by the chemical industry; 8 billion by the iron and steel industry; 6 billion by the non-ferrous metals industries; 7 billion by the transportation and coal industries; 14 billion by other strategic industries; and the remaining 15 billion by other essential civilian and governmental users.

^{1/} North China, with approximately 200,000 kilowatts of installed capacity, is not included in this summary.

An estimated summary of the over-all position of the electric power industry in Japan's Inner Zone (exclusive of North China) is given in the following tables:

TABLE 11A

Estimated Installed Generating Capacity
in the Inner Zone
January 1, 1943

(In millions of kilowatts)

	Hydro	Steam	Total	
<u>Japan Proper</u> (including Karafuto)	7.00	6.20	13.20	
Northern Islands	0.30	0.23	0.53	
Northeastern Honshu	0.30	0.07	0.37	
Tokyo Power Supply Area	3.30	2.00	5.30	
Osaka Power Supply Area	2.10	2.00	4.10	
Southwestern Honshu	0.23	0.67	0.90	
Shikoku Island	0.17	0.13	0.30	
Kyushu Island	0.60	1.10	1.70	
<u>Formosa</u> (Taiwan)	0.33	0.07	0.40	
<u>Korea</u> (Chosen)	1.40	0.60	2.00	
<u>Manchuria</u> (Manchukuo)	0.55	0.85	1.40	
	9.28	7.72	17.00	

TABLE 11B

Estimated Production of Electric Energy
in the Inner Zone
during the year 1943

(In billions of kilowatt-hours)

	Hydro	Steam	Total
<u>Japan Proper</u> (including Karafuto)	38.15	17.69	55.84
Northern Islands	1.50	0.92	2.42
Northeastern Honshu	1.65	0.28	1.93
Tokyo Power Supply Area	18.15	4.00	22.15
Osaka Power Supply Area	11.55	4.00	15.55
Southwestern Honshu	1.15	3.02	4.17
Shikoku Island	0.85	0.52	1.37
Kyushu Island	3.38	4.95	8.25
<u>Formosa</u> (Taiwan)	1.80	0.21	2.01
<u>Korea</u> (Chosen)	8.40	2.40	10.80
<u>Manchuria</u> (Manchukuo)	<u>3.30</u>	<u>3.40</u>	<u>6.70</u>
	51.65	23.70	75.35
Less 15 percent Transmission and Distribution Losses			64.00

TABLE 11C

Estimated Requirements for Electric Energy, 1943,
by Principal Classes of Consumers in the Japanese Empire and Manchuria

Class of Consumer	Electric Energy Requirements (in billions of kilowatt-hours)
<u>Chemical Industry</u>	14
Nitrogen fixation (plus calcium carbide produced for acetylene and other purposes)	9.0
Other chemicals (caustic soda, chlorine, etc.)	5.0
<u>Iron and Steel Industry</u>	8
(Mining iron ore, producing iron and steel, and fabricating heavy iron and steel products)	
<u>Non-ferrous Metals</u>	6
Aluminum, including the production of alumina	4.5
Other metals; zinc, magnesium, copper, etc.	1.5
<u>Coal</u>	3
(Mining, transporting, and loading coal)	
<u>Transportation</u>	4
(Principally for electrified railways)	
<u>Other Strategic Industries</u>	14
(Including paper and pulp, shipbuilding, ordnance, machine tools, aircraft, etc.)	
<u>Other Essential Civilian and Governmental Uses</u>	15
Total.....	64

Power Supply Areas

In general, the hydroelectric stations are scattered in mountain regions throughout the entire area. In Japan Proper these stations are quite numerous; although most of them are relatively small, their total generating capacity is substantial. In Formosa, Korea, and Manchuria, the hydroelectric stations are usually large.

The principal steam electric generating stations are concentrated in Central Honshu Island on the water fronts of Kawasaki, Amagasaki, and Nagoya, or located near the coal mines. Until recently the steam electric stations at Kawasaki, Amagasaki and Nagoya were used principally for the purpose of supplying electric energy during the winter months when there are shortages of water for the hydroelectric stations. However, a number of large "base load" steam electric stations were reported to have been installed in these areas during the past three years. The steam electric generating stations which are located near coal fields are usually "base load" stations.

The Inner Zone is divided into a number of electric power supply areas, both by natural obstacles and by lack of uniformity in the frequency used. The Tokyo power supply area is the most important with approximately 30 percent of the total generating capacity. The Osaka-Nagoya power supply area is second with 24 percent; Korea is third with 12 percent; and Kyushu Island is fourth with 10 percent. The remaining generating capacity is distributed throughout the six other supply areas, each area containing generating capacity representing between 2 to 8 percent of the total capacity installed in the Japanese Empire and Manchuria.

Prospective Increases During 1943

Japan can continue to increase its generating capacity at a rate of approximately 10 percent per year. This schedule can be maintained even without supplies from outside controlled areas, provided that steel and other essential materials are available for the fabrication of these facilities, and that manufacturing plants producing electric power facilities are allowed to continue their operations.

A 10 percent increase in electric power facilities during 1943 would require approximately 400,000 metric tons of steel ingots, 60,000 tons of iron, and 10,000 to 60,000 tons of copper, depending on the amount of aluminum and steel which the Japanese are able to substitute for copper. Competition for scarce metals by the shipbuilders and other war industries, and also

for the facilities which are normally used in the production of electric power facilities, will be the principal factor limiting the expansion of Japan's electric power industry.

The production of electric energy in 1943 will be limited by the amount of water which will be available for the generation of hydroelectric energy, and by the amount of coal which will be available for the operation of the steam electric stations. A total of approximately 20 million tons of coal will be required to operate the steam electric stations during 1943 at an average of 3,000 hours per kilowatt of capacity. Of this total, approximately 10 million tons will have to be shipped considerable distances to the Tokyo and Osaka power supply areas.

In addition to the power facilities of Japan's inner zone, there are 1,500,000 to 2,000,000 kilowatts of generating capacity installed in thermal stations of territories occupied since 1936. A considerable proportion of this capacity could be moved from the Yangtze Valley and the southern regions to the Inner Zone.

IV. CONSUMER GOODS PRODUCTION

Summary

Consumer goods rationing in Japan began five years ago, but deficiencies of supply are not, as yet, critical. Food stocks are adequate (but provide little variety) and in some respects reserves are above normal. The carry-over of rice, for example, is over twenty-five percent higher for the current year than it was during 1941-42 and is nearly four times the carry-over of 1940-41. By American standards the normal Japanese diet has never been "balanced", however, being deficient in fats and proteins. This deficiency has been intensified during the past three years.

The lack of cotton and wool has been partially offset by low quality staple fiber garments which provide neither warmth nor durability. Leather shoes for civilian use are severely rationed, but the masses of the Japanese are accustomed to wooden "geta" and rice straw sandals. Hence, the rationing of leather represents little or no hardship. Shortages of charcoal and other household fuels have had a detrimental effect on health, particularly in the northern areas. As in most warring countries, local transportation for war workers is inadequate. The over-crowding of local busses and electric lines and the frequent breakdowns in bus service are a significant drain on the strength of Japanese labor. The effort of workers to meet this difficulty by moving into industrial centers has caused acute housing shortages in particular areas.

All of these conditions have contributed to a significant decline in health. In spite of the government's effort to curb them, there has also been an extensive growth of "black markets" which tend to disrupt ration and price controls.

Japan has not yet reached the limit beyond which additional conversion of consumer goods industries to war production cannot be made, but is rapidly approaching that limit. The bulk of the future expansion of war industry cannot come out of the conversion of present consumer goods industries to war production but must be attained through the exploitation of the new resources which Japan has acquired.

The gradual conversion of consumer goods industries to war production began as early as 1931 and was sharply increased in 1937. Between the beginning of the war with China in July 1937, and the attack on Pearl Harbor, December 7, 1941, Japan adopted practically all of the drastic measures for converting consumer

goods industries to war production that are, in use in other belligerent countries.

These include: (1) a heavy tax program and a system of forced saving in order to cut down consumer buying power; (2) the adoption of a gradually expanding ration system; (3) the stoppage of nonessential industries; (4) the passage of laws strictly governing prices and providing severe penalties for black market and similar operations; and (5) the creation of a system of priorities governing the use of transportation, electrical power, and other service industries.

In order to analyze the impact of war economy on consumers' goods consumption, it is necessary to consider the chief consumer goods groups separately.

Food

Food, representing the greatest single expenditure group in Japan, was rationed first. Japan's ability to supply its population with food hinges primarily on supplies of rice and fish. Wheat and other grains, sugar, and soybeans are next in importance.

Farmers in Japan are required to sell rice, other cereals, beans, green vegetables, eggs, and other products through government channels and at a fixed price. They can put aside for themselves only the amount of each product which corresponds to the rations allowed to the city population. Prices paid by the government are so low that in some cases the farmer cannot afford to transport his produce to town.^{1/}

Rice. Rice is the best single index of Japan's food position. Rice production in Japan and Korea is below the amount required for domestic consumption under the present rationing system. The major factors in the decline of rice production are (1) the reduction in the quantity of available fertilizers; (2) the diversion of farm labor into war industry, and (3) unfavorable weather in several recent years. Japanese agriculture is adjusted to an intensive application of labor per unit of output. The mechanization of agriculture would offset the decrease in labor but such mechanization is impossible under present conditions.

^{1/} Other information, obtained from Japanese prisoners captured in the Solomons, indicates different regulations applying to rice. According to this information, each farmer is forced to sell to the government only a certain quota of his rice, fixed on an acreage basis. BEW Weekly Notes on Current Economic Information, March 17, 1943.

Government control over the rice market has been gradually tightened in recent years. Following a serious shortage of rice which occurred in Japan in the late fall of 1939 owing to heavy wartime consumption, the people were urged to voluntarily reduce consumption, and the polishing of rice was reduced to 70 percent. In April 1940, the first local rationing system went into effect in Kochi, Shikoku. During the late summer and fall of 1940 the mixture of wheat, barley, buckwheat and even beans with rice was enforced by the local officials in various areas. In April 1941, rice rationing was put into effect in Tokyo, Osaka, and Kobe, with allowances ranging from 570 grams per day for extra-heavy workers down to 300 grams for persons over 61 years of age not engaged in manual labor.

In the opinion of recent residents in Japan, the ration of rice to families with several children is not sufficient and signs of undernourishment are noticeable. Wealthy families are obtaining rice in the black market.

One purpose of the strict rationing of rice is to increase Japan's stockpile. As a result of heavy imports from Southeastern Asia, Japan now possesses over fifteen million koku (brown rice - one koku equals 322.4 lbs.) which is nearly double the normal carry-over.

The tables on the following page indicate recent changes in Japan's rice position.

Other Grains. Wheat, barley and naked barley are the principal subsidiary grains grown in Japan. Although far below rice in importance, they are almost equal to all of the beans, potatoes, fruits, and vegetables combined as a source of food for the people. Although wheat production rose in 1940, the peak year, to a total of nearly double the 1932 figure, two factors have tended to prevent the civilian population from obtaining all the wheat they require, (1) the necessity of supplying Manchuria with substantial amounts of flour (some flour is also shipped to China), and (2) the abnormally heavy domestic demand which has been largely due to insufficient rice supplies, and to higher than usual consumption by the armed forces.

The distribution of the subsidiary grains is controlled by the government. All production in excess of the farmer's actual requirements must be sold to the government. These supplies are distributed to the consuming areas on a monthly basis. A limited number of cities have individual rationing

TABLE 12

Supply of Rice in Japan Proper
(In 1,000 metric tons)

Rice Year	Carry-Over	Production	Imports	Imports	
Nov. 1- Oct. 31	from previous year	during previous year	from colonies	from Foreign countries a/	Total
1934-35	2,403	7,581	1,904		11,888
1935-36	1,453	8,403	2,076		11,932
1936-37	1,171	9,848	1,737		12,756
1937-38	1,099	9,699	2,233		13,031
1938-39	1,242	9,633	1,430		12,305
1939-40 d/	585	9,067	512	1,769	11,933
1940-41	585	8,921	1,170	2,047	12,723
1941-42	1,682	8,043 b/	1,755	1,609	13,089
1942-43	2,194	9,067 g/	731	1,204	13,016

- a/ The average imports for the first five years were about 29,248 metric tons annually.
- b/ Some authorities believe that this crop amounted to 8,482,000 metric tons.
- c/ Some authorities believe that this crop amounted to not more than 8,804,000 metric tons. "Official" and other reports vary from 9,169,000 to 9,871,000 metric tons.
- d/ After 1938 figures are estimates.

TABLE 13

Rice Demand in Japan Proper

(In 1,000 metric tons)

Year	Exports	Carry-over at end of year	Consumption	Total
1934-35	116	1,453	10,319	11,868
1935-36	80	1,171	10,680	11,931
1936-37	95	1,099	11,563	12,757
1937-38	85	1,242	11,703	13,030
1938-39	111	594	11,600	12,305
1939-40 ^{a/}	73	585	11,275	11,933
1940-41	73	1,632	10,968	12,723
1941-42	73	2,194	10,822	13,016
1942-43	73	2,267	10,676	13,016

^{a/} After 1938, figures are estimates.

TABLE 14

Estimated Imports of Rice into Japan
by Country of Origin

(in 1,000 metric tons)

Country	1940	1941	* 1942	1943 (Expected)
Burma	468	497	73	73
Thailand	278	541	585	219
French Indo-China	468	731	804	585
China	556	278	146	146
Total	1,770	2,047	1,608	1,023

tickets for bread, but in Tokyo and some of the large cities this system has not been extended to the consumer. Throughout 1941, the actual distribution of flour was running far behind the schedule allotment dates. Americans who returned in August 1942, reported that long bread queues could be seen outside of all bakeries.

Fish. The fish supply depends entirely on outside factors, such as the availability of vessels, fuel, and labor and the lack of interference from enemy naval forces. The shortage of fish--reported by all observers--is attributed to shortage of oil, military demand for vessels, and the government's price policy (i.e. officially fixed prices were too low to induce fishermen to transport goods to towns). The government is urging the population to replace fish with potatoes and vegetables.

The rationing system for fish was introduced in Tokyo on February 5, 1942. At that time only about 100 to 200 metric tons of fresh fish per day were available, against a normal demand for 600 tons. Sales were restricted to 30 monme per family every other day (1 monme equals 0.132 ounces). In subsequent months supplies have increased to about 500 tons per day and daily purchases of 30 monme per family have been permitted since March 30, 1942.

Soybeans. Soybeans are at present scarce in Japan, due to reduced output in Manchuria, lack of adequate transportation, and heavy demand of the armed forces. Soybeans are being rationed, but details of the system are not available.

Sugar. The sugar supply for the Empire is sufficient. But production in Formosa has been reduced in favor of rice while the problem of transportation from Formosa and the southern areas has caused the curtailment of consumption in Japan Proper. Sugar was the first foodstuff rationed on a national basis. Rationing was introduced in the six major cities on June 1, 1940 and was extended to the prefectures on July 1. The quota varies in the different localities. In Tokyo all persons are allowed 0.6 kin (one kin equals 1.323 pounds) per month. In the country it is 0.4 kin. Special allotments are granted to infants and for special occasions.

In June 1942 the sugar ration was doubled from 0.6 kin to 1.2 kin per month per person. About 600,000 tons of sugar were available in the Philippines at the time of their capture. There were also slightly less than a million potential tons in the form of unharvested sugar cane.

Meats. The domestic consumption of meats was increasing prior to the war, but meat is now very scarce. Transport difficulties are said to have caused imports to decrease, and a shortage of foods for animals probably is another unfavorable factor. With the exception of a small upper class group, however, meat constitutes a very minor item in the Japanese diet. In rural areas it is eaten only on unusually important festival days.

Eggs. Egg consumption per capita was estimated to be about 50 per annum. Most recent information indicates that an average of one egg per Japanese household (about five persons) per week is allowed.

Eggs thus constitute an insignificant item in the present Japanese diet.

Milk. Production and consumption of milk has increased during the past decade but consumption in the urban centers has now been rationed. It is only available to small children and invalids and through doctors' certificates. Reduced milk production is laid to a shortage of animal food.

Salt. A salt shortage has existed for some time in spite of domestic production and imports from China and Manchuria. The extent of the shortage is evidenced by the fact that table salt was put under the rationing system on January 1, 1942. The ration is 200 grams per person per month.

Tea. The domestic output of tea averages about fifty percent more than consumption. It seems probable that the acreage planted in tea will be reduced to increase the area available for more essential foods.

Other Items. Butter, edible oils and fats are very difficult to obtain in Japan in spite of the huge potential of supplies in the occupied countries. Fruits and vegetables, although extremely scarce in big cities, are not rationed, but are sold to first come as long as they last.

Clothing

An examination of the supply of textile fibers points to a scarcity of most of these materials from which clothing is made.

The Japanese situation with regard to cotton and wool is critical. With the loss of imports of high-grade pulp wood from Scandinavia, the United States and Canada, Japan faces difficulties in making enough satisfactory rayon and staple fibers from the low quality wool and reed pulps now available. Production of silk has been allowed to decline; there is still a surplus, however, some of which can be used to substitute for other textile fibers of which Japan is short.

Rationing of textile goods went into effect on February 1, 1942. Coming under the restrictions was practically all clothing of cotton, wool, silk, rayon and other fibers, including all kimono, socks, stockings, hand-suits, underwear, sport clothes, neckties, shoes, stockings, handkerchiefs, towels, blankets, sewing threads and related items.

Rationing is carried out under the point system. Each person, including children, receives a card entitling him to purchase 100 points worth of clothing in cities, and 80 points in rural districts; each article has a specified point value. The ticket is to last for a year. Only 50 points could be used to July 31. In January 1943, new regulations were issued, reducing the available quota. The Ministry of Commerce and Industry explained this move by the fact that to avoid waste, many people returned their ration cards unused. If this is true, the conservative spending on the part of consumers may be attributed to the fact that ration cards were issued in excess of the supply of clothing now available for distribution. The change probably is intended merely to shrink the ration down to the available supply.

Wearing apparel and clothing materials are said to be inferior in quality, and not always possible to obtain.

Leather and rubber boots are also rationed. Cards have been issued only to those to whom footwear is essential for their work. Boot repairs are difficult on account of a shortage of sole leather.

Fuel

Shortages of charcoal, coke, coal, wood and gas are reported by most observers. The shortage of charcoal is felt keenly in Japanese households as it is the leading fuel for domestic use, primarily for cooking, secondarily for heating purposes.

Regulations effective from April 1942, provided that a family of three, living in a house with a floor space of 20 mats (360 square feet) should receive six bales of charcoal a year, or about one-half of moderate needs. (One bale of charcoal weighs about 25 pounds). Available reports suggest that the amount of charcoal made available to households during the winter of 1942-43 was only half the already restricted amount supplied in 1941-42. There is a great demand for wood to help out the fuel supply, but it is very difficult to get, although it is not rationed.

Gas has been rationed since October 1941. New rationing regulations were issued for the five months beginning January 1, 1942; they were to allow a household with a single member four calories; 10.5 calories when there are five members to a household. Extra quotas were to be allowed for sick persons.

To conserve electricity for the munitions industries, a drive was made during the winter of 1941-42 to reduce private consumption by means of heavy surcharges on the monthly bill. Arbitrary action to reduce consumption of electric power in homes has also been taken in some instances.

Local Transportation

Busses and trucks are in a run-down condition. The few busses and trucks that are operating are crowded and overloaded. Private cars, except for the use of officials and the military, have disappeared. The unsatisfactory condition of motor vehicles is attributed primarily to the necessity of substituting other fuels for gasoline. The majority of trucks, taxis and busses were being operated on charcoal, wood, coal burners, and gasoline, with a certain percentage of alcohol and propane gas. Approximately 30 percent of the units equipped with charcoal, wood, and coal burners are out of operation as a result of the shortage of fuel.

The inconvenience and the slowness of transport to and from work is a drain on the strength and morale of Japanese labor.

Housing

As transportation by train, bus, street-car, and taxis became difficult, many Japanese who previously lived in the suburbs tried to move into Yokohama. This resulted in a serious shortage of housing.

The building of new houses is severely restricted. The government has undertaken to build low-cost houses in a number of cities. As every effort is being made to save raw materials, it is estimated that the type of house now constructed saves from 25 to 70 percent in materials as compared with the older houses.

Standard of Living and Industrial Efficiency

On the basis of all available information the conclusion may be drawn that while there are no indications of critical food shortages at present, the amount of food available is not equal to the amount the Japanese people normally consume. There are some evidences of malnutrition, especially among children and poor people, particularly in cities. On the other hand special rations are given to heavy workers and extra-heavy workers.

Excessive hours, the employment of young and inexperienced personnel, and inadequate diet have contributed to rising accident rates. In the year 1939-40 a survey made by the Labor Bureau of the Welfare Ministry of the accidents among 2,200,000 workers in 8,000 factories, disclosed that 590,000 or 27 percent of the total were more or less seriously injured and 749 were killed. This may be compared with the accident rate of 15.5 percent in 1937 and of 21 percent in 1938-39.

Deterioration in public health is reflected in the growing number of tubercular patients. Insofar as this is related to the diet, it probably is the result of the reduction in the consumption of protein foods such as fish or soybean. A report in 1937 stated that there were 1,200,000 patients in 1937 when the death rate was 120,000 a year. In 1938 there were 1,500,000 patients and 148,872 deaths, a rate 50 percent higher than in 1936. The serious inroads of the disease in the industrial field is indicated by the number of tubercular workers sent home--92,000 in 1937, 110,000 in 1938, and 140,000 in 1939. More than half of the tubercular workers were between the ages of 15 and 23. The government's concern over health conditions is apparent from a recent broadcast stating that 80 percent of the budget of Yen 132,000,000 of the Welfare Ministry for 1943-44 will be devoted to an anti-tuberculosis campaign.

Black Markets

Notwithstanding the government's efforts to control the distribution of daily necessities, black markets are widespread in practically all commodities. Prices in the black markets are exorbitant. The black markets are obviously patronized extensively by the well-to-do, but even their standard of

living is lowered as shortages deprive them of many of their accustomed luxuries.

Conversion of Consumer Goods Industry to War Production

Japan is rapidly approaching the limit beyond which additional transfer of equipment and labor from consumer goods industries to war production will actually reduce the efficiency of war production.

Non-essential industries have been out of production for over two years and there are very few points in essential consumer goods industries at which additional cuts can be applied without creating extremely severe shortages.

V. COMBAT ARMAMENT

Summary

Processing capacity constitutes the principal limitation on the production of combat armament. It should be noted, however, that stockpiles of combat armament, which have consistently been accumulated during the last twelve years, and the large quantities of machine tools that have been imported since 1935 help to compensate for technical limitations on the mass production of war supplies.

Alloy steels will be produced in substantial amounts in 1943, but their quality, in many instances, is inferior to the best western products. This deficiency will prevent optimum utilization of the alloy steel output. Uneven quality of high-speed and other alloy steels will also affect the performance of cutting tools adversely and thus slow down production.

Inexperience in designing and manufacturing the finer types of machine tools and bearings, as well as efficient jigs and fixtures, will delay the general application of mass production to the armaments industry.

These limitations will chiefly affect aircraft and trucks and armored vehicles. The production of aircraft will probably not exceed 9,000 planes of all types during 1943. Approximately 60,000 trucks and armored vehicles will be produced during the current year but probably no more than 4,000 tanks. The production of the latest model anti-aircraft and anti-tank guns will also be somewhat limited by technical difficulties. For other types of ordnance, however, processing capacity does not constitute a serious bottleneck.

The Technical Efficiency of Japanese Industry and its Effect on the Production of Combat Armament

The technical efficiency of Japanese industry, measured by reduced unit costs and increased unit output per worker, increased very considerably in the decade 1930-1940. The textile industries, the paper and ceramic trades, the basic mining industries, the production of steel, many branches of chemical manufacture, the metal and engineering trades, and a wide range of manufactures were increasingly modernized during this period. In mining, technical processes were refined, mechanical conveyors replaced hand labor, larger and more efficient equipment was substituted. In manufactures, there was a marked concentration of

output in large and well-equipped plants at the expense of traditional production in a multitude of very small workshops. Of particular importance was the development of many kinds of machine tools which not only fostered the use of machinery but made possible significant progress in the standardization which is necessary for the adoption of mass production techniques.

Increasing Self-Sufficiency. In these years Japan took measurable strides toward industrial self-sufficiency. In 1932, Japan became a net exporter of steel. The range of manufactured products was steadily increased and their quality was rapidly improved. The heavy industries, which are basic to industrial strength, fully shared this progress. Japanese foundries reached a level of development which enabled them to supply the largest and most elaborate of iron and steel castings. The domestic steel industry began to produce a wider range of alloys. The machinery and machine tool industries undertook the manufacture of more complicated types. Boilers and prime movers of all kinds, especially steam turbines, were manufactured in quantities adequate to meet virtually all home demands. Imports of boiler tubes were reduced, and Japanese technical skill increased to a point which made possible the design and manufacture of power plants of the highest pressure and temperature. Industrial labor also became more skilled and the Higher Technical Schools graduated many new specialists for Japan's growing industries.

Remaining Technical Weaknesses. To estimate the significance of recent technical progress in Japanese industry, it is necessary, however, to see industry in proper perspective. By western standards, the Japanese position suffers from the fact that industrialization in Japan began within the past sixty years. Although remarkable progress has been made from the low levels of fifteen years ago, Japanese industry is not as yet abreast of western industry in methods or efficiency. Producing units in Japan's large-scale industries are smaller than those in the West, and are less highly specialized. As long as imports were available, Japan still relied on foreign countries for high-quality special steels and for the critical machine tools in precision production. Japan's motor industry was never substantial; hence facilities for the manufacture of motorized military equipment are inadequate. The trained labor supply is insufficient in all fields in which production has been expanded. Relying on the West, Japan has never been responsible for important technical innovations in industry. As a result, Japan's war-time economy suffers from definite deficiencies in both the quantity and quality of technical equipment as indicated in the following discussion.

Alloy and Tool Steels. Shortages of alloy steels, particularly high speed steels, have undoubtedly proved a serious hindrance to Japanese metal and machinery manufacturers. It is not that Japan has lacked an alloy steel industry, but rather that this industry has developed relatively slowly!

TABLE 15
Expansion of Special Steel Industry in Japan, 1926-1930
(tons)

Year	Total Special Steel (crucible and electric furnace)	Alloy Steel
1926		10,000
1928		16,000
1932	69,740	20,000
1933	139,561	49,000
1934	208,790	56,000
1935	241,649	66,000
1936	316,475	76,000

Since 1936, many new electric furnaces have been installed. Production in the Japanese special steel industry may be expected to reach 750,000 tons in 1943. Because of war demands, it will consist almost entirely of alloy steels. By utilizing some open hearth furnace capacity for the same purpose, Japan will command a total probable production of 1,200,000 metric tons of alloy steel during the coming year. Analyses of captured Japanese armament material show that mild or carbon steel is sometimes used where American practice would dictate the use of alloy steel. It appears probable that, because of inferior quality, part of the production cannot be used where high performance is vital.

There is abundant evidence of the difficulty which the Japanese have experienced in learning the techniques necessary for the production of new alloy steels. "Domestic alloys lagged far behind imported German and other alloys in quality and there are no good reasons to assume that this deficiency was made up since July 1941." (Dispatch from Ambassador Crow on exchange M.S. "Gripsholm", August 15, 1942). "However, bear in mind that every time we tried to demonstrate any machines in Japan, the tools and material to be machined were of an inferior quality." (Letter from Mr. H. P. Lotz, Landis Tool Company to Mr. Toll Burne, Executive Director, National Machine Tool Builders' Association, March 25, 1942).

It is not that the techniques cannot be acquired but that several years must elapse before they are completely mastered. An expansion in alloy steel production since 1936 of the dimensions indicated magnifies the difficulties involved. Meanwhile, with so small a total output of steel, the Japanese cannot afford to discard entirely batches of steel which do not measure up to specification, nor can they stop production until uniformity of composition in the various types of alloy and tool steel is attained. As a result, poor grades of tool steel are often employed. Inferior tools directly affect the speed and hence the quantity of armament production. It is necessary either to reduce the speed of cutting in machining parts, or to interrupt production more often to replace tools. Whichever alternative is adopted, output suffers.

Another deficiency in Japanese metallurgical practice affecting armament production is the great lack of uniformity in carbon content of high-grade steels made in Japan. This makes it very difficult to obtain a uniformity in heat-treatment, and results in a varied degree of strength, hardness and machinability after the material is treated. Although this lack of uniformity does not affect the accuracy of parts as machined, it takes a constant toll of cutting tools in the machining process when they encounter metal of greater strength and hardness than that for which they are designed.

Machine Tools. In Japan units valued at less than \$100 are classified as machine tools. Many of these obviously cannot be power-driven cutting and grinding machines that work on metal. Hence, many machines included in the following tabulations do not figure in the mass production of arms, munitions, tanks, aircraft, motor vehicles, and other war equipment.

In presenting value figures as an indication of the degree of self-sufficiency of the Japanese machine tool industry, the following explicit reservations must be made. (1) The value of the average machine tool made in Japan is considerably below that of the average imported machine tool. (2) The number of Japanese machines represented by a given monetary value is much greater than the number represented by imported machine tools. (3) The majority of machine tools produced in Japan are of the standard, low production, and non-precision types, whereas the majority imported are of a critical type, as far as their importance to the manufacturing industries of the country is concerned.

Even on the quantitative side, there are further reservations to be made. The percentage of Japanese self-sufficiency in machine tools was said by Japanese authorities to have dropped from 72 in 1936 to 50 in 1937, when demand jumped to an index figure of 180 on the base, 1936 = 100. In 1938, on the same base,

TABLE 16
Japan: Production and Import of Machine Tools, 1929-1938

(in unit values)

Year	Production		Importation (1000 Yen)	Exportation (1000 Yen)	Demand (1000 Yen)	Production as percent of demand
	Number	Value (1000 Yen)				
1929	464,252	5,586				
1930	32,737	4,437				
1931	114,756	3,943	3,070	220	6,793	58.05
1932	33,654	8,198				
1933	50,103	15,503	16,247	566	31,164	49.71
1934	330,863	23,459	21,433	1,189	43,701	53.68
1935	72,425	30,176	18,296	1,941	46,531	64.85
1936		36,503	18,865	4,907	50,461	
1937		50,000		5,798		
1938		approx.			9,570	

TABLE 17
Japanese-produced Machine Tools
(in unit values of 1,000 yen)

Year	Yen	Dollars
		(Average annual exchange rates)
1929	12	6.
1930	135	68.
1931	34	17.
1932	238	71.
1933	306	77.
1934	71	21.
1935	415	124.

demand is said to have risen even more sharply to an index figure of 710, as Japan attempted to swing its armament industries into mass production. Although no figures were issued for production in 1938, it appears probable that the Japanese industry could supply only one-eighth to one-quarter of the indicated demand. As further evidence of the dependence of Japanese industry on imported machine tools, the results of a reliable investigation of 12 machinery factories made in 1937 may be cited. They show the number of homemade machine tools in use as against foreign-made:

	Home-Made	Foreign-Made
Lathes	619	708
Drilling Machines	207	277
Milling Machines	79	256
Planers and Shapers	399	851
Grinders, etc.	399	851
Total	1,631	2,347

The evidence of value figures is also useful in indicating roughly, on the quantitative side, the present Japanese position in machine tools as compared with, for example, the United States. In the following table, Japanese production and import figures have been combined on the basis of average annual rate of exchange. Certain modifications have been made to conform to export statistics from supplying countries:

TABLE 16

Additions to the Japanese Machine Tool Inventory

Year	Japanese production	Imports from United States, United Kingdom, and Germany	Total, rounded
1932	\$ 2,300,000	\$ 1,890,326	\$ 4,100,000
1933	3,850,000	3,733,347	7,600,000
1934	6,350,000	6,571,656	13,000,000
1935	8,080,000	4,965,989	13,000,000
1936	12,150,000	6,090,999	18,000,000
1937	15,674,000	16,465,746	32,000,000
1938	(approx) 18,000,000		
1939	(approx) 21,000,000	34,585,662 (approx)	53,000,000
1940	(approx) 25,000,000	26,000,000 (approx)	47,000,000
1941		24,000,000 930,000	49,000,000

For comparison, the following table is useful:

TABLE 19

Additions to the U.S. Machine Tool Inventory, 1932-1942

Year	Production	Exports	Inventory increase
1932	\$ 22,000,000	\$ 8,705,000	\$ 13,295,000
1933	25,000,000	6,476,000	18,524,000
1934	50,000,000	16,056,000	33,944,000
1935	85,000,000	22,820,000	62,180,000
1936	133,000,000	34,047,000	98,953,000
1937	195,000,000	52,136,000	142,864,000
1938	145,000,000	83,269,000	61,731,000
1939	200,000,000	101,247,000	98,753,000
1940	430,000,000	224,741,000	205,259,000
1941	775,000,000	191,034,000	583,966,000
1942	1,400,000,000 (approx)		

The preceding tabulations show that in the period 1932-40, the Japanese machine tool inventory increased about \$226 million of which \$197 million (or less) were Japanese production and \$89 million were imported. By contrast, during this period, the United States machine tool inventory increased \$735 million—more than three times as much. If estimates are added covering 1941 and 1942, the Japanese increment probably did not exceed \$80 million, (imports ceased), while the United States inventory expanded by about \$1,800 million, or more than 22 times that of Japan. For 1943 a further Japanese expansion of some 20 percent may be estimated. Thus, if Japanese production reached, say, \$35 million in 1941 and \$45 million in 1942, production this year may be expected to run between \$50 million and \$60 million. This compares roughly with the figure of 200,000,000 set as the goal of the expansion program to be achieved in 1941. The weight of evidence, including repeated references from Japanese sources to the difficulties encountered by this program makes a two-year delay in achieving its objective a reasonable assumption.

The Problems of Precision in Machine Tools. In aircraft engines and to a lesser degree in tanks, guns, and automotive equipment, it is necessary that parts be finished to a tolerance of not over 0.001 inch. For certain parts, the limitations are much smaller. The Japanese have usually failed in their efforts to produce machines that will operate within such close limits.

As has been indicated, Japanese tool makers, to a great extent, confined their product to a limited variety of sizes and types of second-grade standard machine tools, such as are used in this country in garages, jobbing shops or repair shops. They have always had trouble with gear-making, depending almost entirely upon the United States for gear cutters, hobs and broaches. Although in these fields there have been many Japanese attempts to make durable cutting tools capable of producing satisfactory parts, these efforts met with little success. The failures were in metallurgy and in the geometry of cutting. Thus, one of the principal bottlenecks in the automobile industry and in producing aircraft engines occurs in the number of gear-cutting machines available.

The present Japanese supply of imported machines permits of no substantial expansion of mass production methods. Moreover, the upkeep of machines in operation is notoriously less efficient in Japan than in western countries. Under the most favorable circumstances, before the Japanese machine tool industry would be capable of replacing worn-out machines or equipping new plants without substantial loss in efficiency, a minimum of several years would have to elapse. It will not be within the probable duration of the present war, in the opinion of many American engineers.

Mass Production Techniques. Another critical bottleneck that would exist in the Japanese automotive and aviation industries if major changes were made in the direction of mass production output, is the inability of the Japanese to make jigs, fixtures, and dies, and a lack of tool facilities for producing them expeditiously. Not only are tool-making facilities limited, but there is a dearth of trained personnel that can design such equipment and work to the exacting clearances required. If a well-designed fixture requiring a minimum of time to transfer the work is used, production can be maintained at a maximum, but if this fixture or jig is of poor design, the production capacity of the machine will be affected accordingly.

It is also necessary to emphasize the importance of perishable cutting tools and hand machines. Regardless of the high productivity of a power-driven machine tool when properly operated and equipped, such a machine will prove no more efficient than the cutting tools with which it is provided. For example, a machine may be capable of very high speeds and feeds resulting in rapid production, but if low-grade cutting tools or poorly heat-treated tools instead of tungsten carbide tools are used, then the speeds and feeds must be cut to conform to the low-grade tooling. In terms of production, the difference

between a carbon steel cutting tool and a tungsten carbide cutting tool is the difference between fifty feet and 300 feet per minute. The Japanese have little experience in the manufacture of these higher speed cutting tools. Although imported machine tools were equipped with high speed cutting tools, these cutting tools are perishable and the Japanese had no opportunity to accumulate stocks. Thus, they must be replaced with far inferior cutting tools of Japanese manufacture, and the rate of production of their best power-driven machine tools will probably be cut to one-sixth or one-eighth of previous performance.

Anti-Friction Bearings. The importance of ball and roller bearing production was very belatedly recognized in Japan, with the result that reliance on foreign bearing products increased with the growth of home production in machinery, automobiles, and airplanes. In 1939 and 1940, it was estimated that, as a result of strenuous efforts by the army and navy, total Japanese anti-friction bearing production of all types (roller and ball) was about 20,000 per day. In addition to this, SKF was furnishing Japan with approximately 15,000 pieces per day. Under present schedules in the Japanese automotive, airplane and machine tool industry, it has been estimated that 50,000 units per day would be needed, exclusive of service replacements. It would appear that this over-all quantitative requirement is being met. Various estimates place present Japanese output at 60,000 pieces per day. These are, of necessity, approximations, but they point to an output probably sufficient to cover the number of pieces necessary, not only for production purposes, but also for replacements. The quality of the output, however, is a different matter.

Anti-friction bearings fall roughly into two categories; precision and ordinary bearings. The manufacture of even ordinary bearings of good quality is a complicated and difficult job. The manufactures of fine precision bearings, whose tolerances are on the order of two to eight ten-thousandths of an inch, is an art which has been mastered by only a few firms in the world. It is particularly difficult to produce precision bearings in either very small or very large sizes. Although SKF carried in stock in Japan from 18,000 to 20,000 types, the Japanese, in order to step up their over-all production, decided to concentrate on popular sizes running up to 100 mm., but not including the small bearings required for such equipment as magnets, signal apparatus and the like. It is believed that any attempt on their part to make all the sizes required would reduce their over-all production below their estimated quantitative requirements. As late as October 1941,

the Japanese automobile industry was very hard pressed for lack of several special bearing types, then not even in production.

The Japanese were unsuccessful in their last minute efforts to accumulate any reserve stocks of bearings. Although shipments from Sweden via Spain and Italy have undoubtedly run the blockade, these could supply only a fraction of the Japanese need for fine bearings. As of 1941, Japanese stockpiles of bar steel for races seemed sufficient for two years' requirements, but this stock covered only the popular sizes on which the Japanese manufacturing industry has concentrated. Much had to be sacrificed to make the smaller-sized bearings.

Japanese steel for both races and steel balls is inferior, it is interesting to note that both the Japanese Army and Navy specified imported steel in these categories. Another factor which will militate against makeshift arrangements is that results have been poor when domestic balls have been used with imported races, or with races made from imported steel. This is because the imported steel is harder than the domestic steel going into the ball.

Not only are the Japanese faced with the dual problem of maintaining simultaneously a quantitative and diversified production, but they have yet to overcome serious technical obstacles impeding their production of fine precision bearings. As early as 1940 they had begun to replace precision bearings with ordinary bearings wherever this was possible. As an example, in the machine tool field, precision bearings in the gear boxes were replaced with ordinary bearings. Probably technicians from Germany or Sweden are assisting the Japanese in their efforts to overcome these difficulties. Without additional equipment, however, it is hard to see how much progress can be made.

In the opinion of experienced bearing engineers, Japan's ball and roller bearing industry is far behind the West in respect to capacity, technique, and precision machinery and on that account constitutes a most serious problem in the Japanese war economy. This bottleneck is further aggravated by lack of facilities for production of steel balls above one-half inch in size and tapered as well as cylindrical rollers. Japanese-made ball bearings as a general rule have a lifetime only about one-third that of first class foreign products.

Industrial Personnel. The technological problems indicated above are very serious obstacles to the expansion of production in the Japanese armament industries. They are aggravated by the

shortcomings of industrial personnel. The increasing demands of industry have resulted in a severe shortage of almost all kinds of trained labor. The Japanese are skillful artisans and under able supervision become efficient industrial workers. Facilities for training new workers while maintaining full industrial production are limited, however, and in the absence of a tradition of mass production the difficulties involved are magnified. It takes longer to develop competent workers. There is an especial shortage of supervisors at the shop foreman level. Moreover, the supervisory class as a whole is less efficient and less competent than are the workers. Japanese technical engineers are frequently highly trained, but more specialized than those in the West and hence less versatile. Even in the same industry they cannot be shifted so easily from one branch of production to another. Foreign technicians, especially German and Swedish advisers who may be present in Japan, will find difficulty in duplicating their European practice because Japan is relatively so much newer to modern industrial technique.

The strict caste system prevailing in Japanese industry constitutes another obstacle. The mechanic with more than average technical knowledge cannot be advanced to a position of authority. The technical engineer is prevented from obtaining the practical experience required to qualify him for the position of supervising a factory. Management is frequently uninformed on technical problems. There is thus a wide gap between the technical and practical sides in the management of Japanese industries. This gap is an important reason for the inefficiency so often noted in the management of Japanese industries, and in the present critical period its effects are another limiting factor in the expansion of armament production.

The following sections deal with the present position and future potential of the Japanese armament industries in view of limitations indicated in the preceding pages.

Aircraft Production

It is estimated that the Japanese armed forces had approximately 5,200 combat planes available at the outbreak of war with the United States in December 1941, although a significant number of these were obsolescent. Production for 1943 is tentatively estimated at 6,500 operational types and 9,500 planes of all types.

Losses. Total losses, attrition, and wastage during 1942 were sufficiently in excess of production to reduce total

Japanese operational strength to about 3,600 planes by the end of the year. Obsolescence, and conversion to new types resulting in temporary declines in production, were partly responsible for this weakened strength. Total combat and operational losses, however, were probably responsible for the elimination of at least 6,000 planes from Pearl Harbor until January 1, 1943. Rising production rates, particularly in fighter types caught up with the loss rate by late 1942, and it is believed that since January 1, 1943, total Japanese operational strength has been increasing at a rate of approximately 50 planes per month, and probably now stands close to 3,900 planes.

It is believed that the Japanese have had relatively greater success in achieving fair production rates in single engine fighters than in other types. Such evidence as there is at hand suggests that difficulty has been encountered in the production of multi-engined bombers, and the apparent reluctance of the Japanese in the field to risk bomber losses to an extent comparable to their frequently free use of fighters tends to confirm the evidence on production.

Output. Latest available information leads to the following preliminary estimates for the Japanese aircraft industry for 1943:

Fighters	Other Operational Types	Non-Operational Types	Total
2,400	4,100	3,000	9500

These estimates assume that the fighter plane production rate during 1943 will remain approximately at the level attained late in 1942, and that some of the difficulties that apparently held down bomber production in 1942 have by now been overcome.

Development and Organization of the Industry

The Japanese aircraft industry is comparatively young. Lacking experience it has relied upon foreign technical assistance for development, at first principally French and British, and later American and German. Lacking strong supporting and related industries, it has had to develop these concurrently.

Japanese aircraft and aircraft engine design reveals the heavy dependency upon foreign technical knowledge that has characterized the growth of the industry. Imitations and

adaptations predominate. This is not always or necessarily a sign of weakness, however, for some of the results have been decidedly efficient.

Organizationally, the Japanese have tended to favor centralization of assembly within relatively few companies, but dispersal of production of components and sub-assemblies among a great number of companies. At the same time, and probably as part of the same general plan, there has been a relatively high degree of standardization of plane design. For instance, the famous Zero-type fighter is used as a land-based fighter, as a ship-borne fighter, and as a float-type fighter.

The present organization of the aircraft industry in Japan is directly the result of government planning and direction. From early paternalism toward the industry, the government has rapidly advanced to outright control.

In 1939, 14 companies, headed by Mitsubishi Heavy Industries and Nakajima Airplane Mfg. Co. were licensed by the government for the manufacture of aircraft, airframes, engines and components. In August 1939, the government granted the Kanegafuchi Spinning Company permission to establish a fifteenth company - the Nippon Kokusai Koku Kogyo K. K. In addition to these private companies, the Japanese government assembles, repairs, and produces components at a number of Army and Naval arsenals.

In 1939 the Japanese Government enforced the National Mobilization Law adopted March 24, 1936, and assumed control of the aircraft industry. In December 1941, the Aircraft Manufacture Ordinance was revised, and in addition to government control over the manufacture of aero-engines, airframes and propellers, the new plan included control over all manufacturers carrying on production of parts.

At present there are probably well in excess of 200 companies contributing significantly to Japanese aircraft production. 209 companies are reported as regularly registered members of an industrial association formed in late 1942 of concerns producing aircraft and parts for the Army. At least 140 companies and 175 factories have been identified by intelligence sources as producing planes or components for the Japanese armed forces.

While Japanese aircraft production is definitely greater and more advanced than was generally recognized before Pearl Harbor, continuing expansion will be possible only if many

difficulties are overcome. No single, outstanding bottlenecks are known to exist. Production limitations appear generally to be those arising from the problems involved in the development and expansion of mass production in a highly technical industry without the support of well-established industries in related and supporting fields.

Tanks and Trucks

Japan's automotive industry, like its airplane industry, is of comparatively recent developments. Significant progress in domestic output was not achieved until after 1937-38. By 1940 total production of motor vehicles is estimated to have reached 23,525 units, of which 23,450 were trucks. Included within this latter figure would be Japan's output of armored vehicles.

Based on estimated capacity, total production of trucks and armored vehicles is not believed to have exceeded 50,000 units for 1942 or likely to exceed 60,000 units in 1943. The number of armored vehicles included within this total is not known. The Japanese army, however, is thought to have 85 mechanized divisions, supported by 15 units of special tank brigade forces. These divisions and tank brigade units would require 4,400 light and medium tanks and 7,300 motorcycles with side cars, in addition to trucks and cars.

The combined requirements for tanks and other motor units are not excessive and are probably within the capacities of the Japanese motor vehicle industry. It would appear, however, that the Japanese army is not heavily mechanized in comparison with the forces engaged in continental Europe. Quantity

production of tanks above 16 tons seems doubtful, although experimental models are known to exist. Current fighting is not of such a nature as to cause Japan much loss of tank strength. Losses to date in tanks, except possibly for those on transports which were sunk, have been negligible. The wastage imposed by large-scale and long continued land conflict, however, would place a heavy strain on Japan's motor vehicle industry.

Production. In March 1941 an estimated 175,000 automobiles were under license or in military service in the Japanese Empire. However, not more than 75,000 to 100,000 of these were in operation during 1941, owing to fuel shortage and other economic difficulties. Under these conditions, trucks outnumbered cars by perhaps three or four to one. Estimated motor vehicle production in Japan during recent years is shown in the following table:

TABLE 21

Motor Vehicle Production in Japan

Year	Passenger Cars	Trucks	Total	Cycle Cars
1932	---	675	675	---
1933	191	1,617	1,808	---
1934	35	1,915	1,950	895
1935	30	1,780	1,800	5,000
1936	460	2,848	3,308	6,423
1937	650	3,280	3,930	10,500
1938	500	6,600	7,100	10,000
1939	300	18,500	18,800	---
1940	75	23,450	23,525	---

It may be expected that the rapid progress in automotive production achieved by Japan up to 1940 has since continued, although the volume of production is still relatively small. Large stockpiling of accessories and spare parts, accomplished prior to the Anglo-American "freezing" regulations of July 1941, would help to counteract the difficulties met by the industry in being thrown solely upon its own resources after that date. The following table summarizes the capacity and possible output of the industry in 1942-43, estimated on the basis of an uninterrupted flow of materials and parts to meet steady production under wartime pressure.

TABLE 22

Estimated Output of Motor Vehicle Industry, 1942-1943

Companies	Product	Estimated Capacity	Estimated Possible Production	
			1942	1943
Nissan Jidosha Kaisha	Standard Trucks	25,000	15,000	17,500
Nissan Jidosha Kaisha	Small Scout Cars	4,000	2,400	2,800
Toyoda Jidosha Kogyo	Standard trucks	25,000	15,000	17,500
Tokyo Jidosha Kogyo	Military trucks and tanks	8,000	4,800	5,600
Mitsubishi Jukogyo	Armored vehicles and tanks	6,000	3,600	4,200
Kawasaki Jukogyo	Heavy armored cars and tanks	600	360	420
Ishikawajima Dockyards Company	Tractors, tanks and trucks	5,400	3,240	3,780
Ikogai Company	Armored cars and tanks	5,000	3,000	3,500
Niigata Iron Works	Military trucks and tanks	2,000	1,200	1,400
Manchuria Motor Car Company	Diesel engine trucks	1,500	900	1,050
Total		82,500 ^{a/b}	49,500 ^c	57,750 ^d

a/ To be considered 100 percent capacity.

b/ A higher figure, arrived at through calculations based on known supply of key machinery, is given in ZEW report EO-81, March 25, 1943.

c/ Based on 60 percent capacity operation.

d/ Based on 70 percent capacity operation.

The above table does not furnish a breakdown on Japan's production of armored vehicles, information on which is not available. However, it is believed that the automotive industry supplies Japan's full output of these vehicles, leaving the arsenals to mount the guns and special equipment. Estimated production of 23,000 trucks in 1940 was probably sufficient to cover Japan's military requirements at that time.

Military Requirements. Needs of the Japanese army for armored vehicles, indicated in Table 23 are estimated on the basis of 85 divisions. It is not known whether all 85 divisions are completely equipped with the vehicles included in the table.

TABLE 23

Estimated Japanese Requirements in Armored Vehicles

Type of Vehicle	Number Needed for 85 Divisions
Tanks - 4 ton	1,020
Tanks - 8 ton	425
500 gallon tank trucks	425
Trucks - 2 ton	28,645
Automobiles	3,315
Motorcycles (with side cars)	7,310
2 wheel carts (500 lbs. capacity)	70,890
2 wheel horse ambulances	14,180
Radio trucks	425

Special Tank Brigade

Type of Tank	Number Needed for 15 Units
Light tanks - 8 tons	795
Medium tanks - 16 tons	1,410

Recapitulation (Tanks and Special Motor Units)

	Special Tank Brigade		Total
	For 85 Divisions	For 15 Units	
Tanks - 4 ton	1,020		1,020
Tanks - 8 ton	425		1,120
Tanks - Medium - 16 ton.		1,410	1,410
Radio and Tank trucks	850		850
		Heavy Motor Power Units	4,400
Motor cycles (with side cars)			7,300
		Required Total	11,700

Ordnance

Procedure for Making Estimates. Due to the secrecy with which Japan proceeded with its rearmament program after 1937 very little is known of the extent to which munition plants have been expanded and increased in number. Therefore, indirect methods of estimating ordnance production capacity have to be employed. The method followed in drawing up the estimates made in the attached tables was, first, to ascertain how much carbon and alloy steel Japan can allot in 1943 for ordnance and ammunition after meeting all other essential minimum requirements. The tentative estimates arrived at by this method disclose that Japan has available roughly 2,774,600 metric tons of carbon steel and 987,400 metric tons of alloy steel for all categories of military and naval ordnance in 1943. Including the needs of vital industries, 53 percent of Japan's total rolling mill steel production is allotted to military purposes. (Table 24).

It is tentatively estimated that in 1943 Japan will be able to increase its production of ordnance and ammunition by at least 20 percent over 1942 and 162 percent over 1937. (Table 25)

TABLE 24

Tentative Estimates of Japanese Allocation of Carbon and Alloy Steels for 1943

(Metric Tons of Rolled and Forged Steel)^{a/}

	<u>Carbon</u>	<u>Alloy</u>
<u>Total Steel Production</u>	<u>5,400,000</u>	<u>1,350,000</u>
<u>Civilian uses</u>	<u>2,625,400</u>	<u>362,600 b/</u>
Power Installations and Construction	230,400	57,600
Railroads	645,000	5,000
Machinery, machine tools, mining, shipyard, plant, harbor and other construction, public services, agriculture, etc.	1,750,000	300,000
<u>Military uses</u>	<u>2,774,600</u>	<u>987,400 c/</u>
Naval ships and guns (308,000 S.D.T.)	202,182	191,675
Merchant ships (620,000 GRT)	423,502	3,530
Planes (10,000 plus engine replacements)	3,300	57,670
Tanks, trucks, tractors, trailers, general service cars, motorcycles and spare parts	200,000	120,000
Allocated to Navy and shipping programs (other than ships)	433,175 d/	246,649 d/
Allocated to Army and Air programs (other than planes, tanks, trucks etc.)	1,512,441 d/	367,876 d/

- a/ Rolling mill steel production is estimated to be 70 percent of ingot steel production.
- b/ In addition to this figure there is available upwards of 1,000,000 M.T. of cast iron for "civilian uses".
- c/ The amount of steel available for military purposes in 1943 amounts to over 53 percent of Japan's total steel production. According to a report of the B.M.E.W. dated October 20, 1942 Germany allotted 60 percent of its steel production for military purposes. The United States, in the second quarter of 1943, allotted 46 percent of its production for all military purposes. The merchant ships construction programs of all three nations are included in the above estimates.
- d/ It is estimated that 1,000,000 M.T. of carbon steel and 500,000 M.T. of alloy steel of the total here allocated might be allotted to guns, bombs and ammunition. This allotment may be compared with the 5,600,000 M.T. the B.M.E.W. estimates Germany allocated for ordnance in 1942.

TABLE 25

Estimates of the Amount of Steel in Japan Available for Military Purposes, 1937-1942 a/
(Metric Tons of Rolling Mill Steel)^{b/}

Year:	Carbon Steel	Alloy Steel	Total Production	Percentage allotted for all military and naval purposes and categories of ordnance	Amount consumed in China War	Amount devoted to expansion of armaments	Percentage of increase in armament production each year	
1937:	4,101,300	308,700	4,410,000	40.5	500,000	1,288,000	—	
1938:	4,221,000	469,000	4,690,000	47.2	700,000	1,512,000	17.4	
1939:	4,410,000	490,000	4,900,000	48.6	700,000	1,680,000	11.	
1940:	4,515,000	735,000	5,250,000	45.5	430,000	1,960,000	16.6	
1941:	4,648,000	952,000	5,600,000	43.6	200,000	2,240,000	14.2	
1942:	4,900,000	1,225,000	6,125,000	48.4	200,000	2,765,000	23.4	
Total allotted for military purposes from 1937 to January 1, 1943 (exclusive of losses in the China War), in metric tons of rolling mill steel							11,445,000	

a/ Includes merchant and naval ship construction.

b/ Rolling mill steel production is estimated to be 70% of ingot steel production.

c/ After deducting basic needs for civilian economy, railroads, mining, industry in general, electric power facilities, etc. estimated to be an average of 2,800,000 metric tons of rolling mill steel a year.

d/ Based on a statement made by Major-General Sato, Chief of Military Affairs Section of the War Ministry in a speech on March 10, 1942 as reported in the Japan Times and Advertiser to the effect that the China War had consumed up to that time 20% of the steel allocated for military purposes.

VI. MANPOWER

Summary

It is expected that in 1943 Japan will be able to increase employment in war industries by about 615,000, and to enlarge its armed forces by about 499,000 through cob-outs from civilian occupations. After these re-allocations, Japan's male labor supply will be about exhausted, but there will still remain female labor reserves of about three millions.

While administrative control of manpower has not yet been completely unified, official controls have been operating in the field for many years, and it may be assumed that manpower recruitment, training, and allocation will be handled with increasing efficiency.

Industrial Requirements

It is estimated that during 1942 Japan will require an additional 615,000 persons for its war industries. To effect this increase, transfers can be made from civilian occupations, in some cases through a net reduction in the civilian occupations, in others through the substitution of female labor for male labor. These transfers can be made as follows:

TABLE 26

Transfers of Manpower to War Industries, 1943

Industries	Estimated Releases Deri. - Dec., 1943 (in thousands)		Estimated Increases Jan. - Dec., 1943 (in thousands)	
	Male	Female	Male	Female
War Industries	Total Sales Females Total Sales Females Total			
Metals, Machinery Shipbuilding, Ordnance Chemicals			370	185
			48	12
Total			418	197
				615
Mfg. & Bldg.				
Building Ceramics Clothing Elect. & Gas. Food & Drink Lumber, Woodwork Paper, Printing Textiles Other Mfg.	50 25 5 25 25 55 27 13	20	50 25 25 7 25 60 75 133 25	12 1 25 8 25
Total	265	153	418	7 38 45
Agriculture	100	100	100	100
Commerce Professional & Administrative Other Civilian Occupations	380 25 150	380 25 200	380 80 25	80 80 25
Total	655	50	705	205 205
Grand Totals	920	203	1,123	425 440 865

TABLE 27

Japanese Population and Labor Force 1930 and 1943
Distribution by Industries and the Number in Armed Forces

	1930 (Japanese Census)			1943 (Estimates)		
	Total	Male	Female	Total	Male	Female
Total Population	64,450,005	32,390,155	32,059,850	74,954,000	37,504,000	37,450,000
Unoccupied	34,173,365	12,816,518	21,356,847	39,706,000	14,453,000	25,253,000
In Labor Force or Army	30,276,640	19,573,637	10,703,003	35,248,000	23,051,000	12,197,000
Percent in Labor Force	47.0	60.4	33.4	47.0	61.5	32.6
Farming	14,140,107	7,743,065	6,397,042	13,500,000	6,700,000	6,800,000
Marine	546,624	501,078	45,546	756,000	635,000	121,000
Mining	251,220	210,174	41,046	552,000	359,000	193,000
Industry	5,699,581	4,269,151	1,430,430	8,470,000	6,587,000	1,883,000
Commerce	4,478,098	3,013,903	1,464,195	4,000,000	2,200,000	1,800,000
Transport	1,107,574	1,028,595	78,979	1,250,000	850,000	400,000
Public Service	1,801,151	1,448,803	352,348	2,250,000	1,825,000	425,000
Domestic	781,319	84,203	697,116	500,000	25,000	475,000
Miscellaneous	570,966	488,265	82,701	400,000	300,000	100,000
Unemployed	320,000	206,400	113,600			
Armed Forces	580,000	580,000	—	3,570,000	3,570,000	—

Military Requirements

War Department estimates for the numbers engaged in the armed forces of Japan as of December 31, 1942, are as follows:

Army (including Army Air Corps)	2,750,000
Navy (including Naval Air Force)	325,000
Total	3,075,000

According to estimates in the foregoing table, some 920,000 males can be released from civilian employment in 1943. Of these, some 425,000 will be needed to increase the employment in war industries, thus leaving 495,000 available for the armed forces. The addition of this number to those already in the armed forces at the end of 1942, gives a total of 3,570,000 for 1943. Estimates of casualties for the past five years have averaged 200,000 a year. Assuming that casualties for 1943 will be met from last year's conscripts, and that these, in turn, will be replaced up to about 300,000 by the annual male increment to the population, the 495,000 new males released from industry would represent a potential net increase to the Japanese armed forces.

Labor Reserves

Males. Male labor is believed to be fully utilized. Estimates of Japanese population and employment show that the labor force already contains in excess of 1,000,000 male workers under 15 and over 65 years of age.

Females. An employable reserve of about 3 million women was believed to exist at the close of 1942. Japan may draw on about 110,000 from this reserve to replace males in the coming year. To replace those, in turn, there will be the annual increment of about 300,000 from the growth in population. Of these, many will never enter the labor market. A continuing reserve of about 3,000,000 women in 1943 seems, therefore, to be likely.

Industrial Expansion

Large withdrawals for military service during and after 1937 coincided with a tremendous expansion in heavy industry. Between 1931 and 1940 the general index of industrial production (all industries) increased 100 percent. Production of consumers' goods increased only

slightly--between 10 and 20 percent--as compared with production of producers' goods which increased by more than 150 percent. Among the producers' goods that expanded most were those in the iron, steel and machinery industries where the index in 1940 stood at 341 percent of the level of 1931-1933.

The exhibit on Private Factory Employment (Chart I) shows the steep curve of increase in the war industries between the beginning of 1937 and the middle of 1939. Employment in the machine trades increased over 100 percent; in tools and instruments, over 85 percent; in shipbuilding, metal work, vehicles, over 50 percent; in fertilizer, over 40 percent. Whereas recruitment in the metal industries, for example, in 1933 had been at the rate of 5 to 6 percent a year, by 1938 it had reached nearly 30 percent a year; over the same period of time the rate of recruitment in the machine and tool manufacturing industries had jumped from 4-5 percent to 45 percent; in shipbuilding and conveyance manufacture from 1-2 percent to 25 percent per year.

During this period of sweeping industrial conversion, rapid and critical adjustments had to be made. Serious shortages of manpower appeared, particularly in skilled labor and technicians. The facilities of technical schools proved entirely inadequate to meet the demand. In 1938, 44,000 jobs were offered to the 7,500 graduates from "A" Class Engineering Schools. The discrepancy in the engineering field between trained men and positions offered was evident as far back as 1933; by 1937 the demand was already more than 4 times greater than the supply.

Training Programs and Labor Mobilization

Since that time, however, Japan has taken steps to organize manpower and to train and allocate it for maximum efficiency in war. The first step, after registration of all civilians in August 1938, was the passage of an Ordinance compelling the training of technicians and skilled workers. Under this Ordinance all important private industries were required to give 2 to 3 year training courses following detailed government prescription and under close government supervision. In addition to these, government training schools were also set up to meet the need.

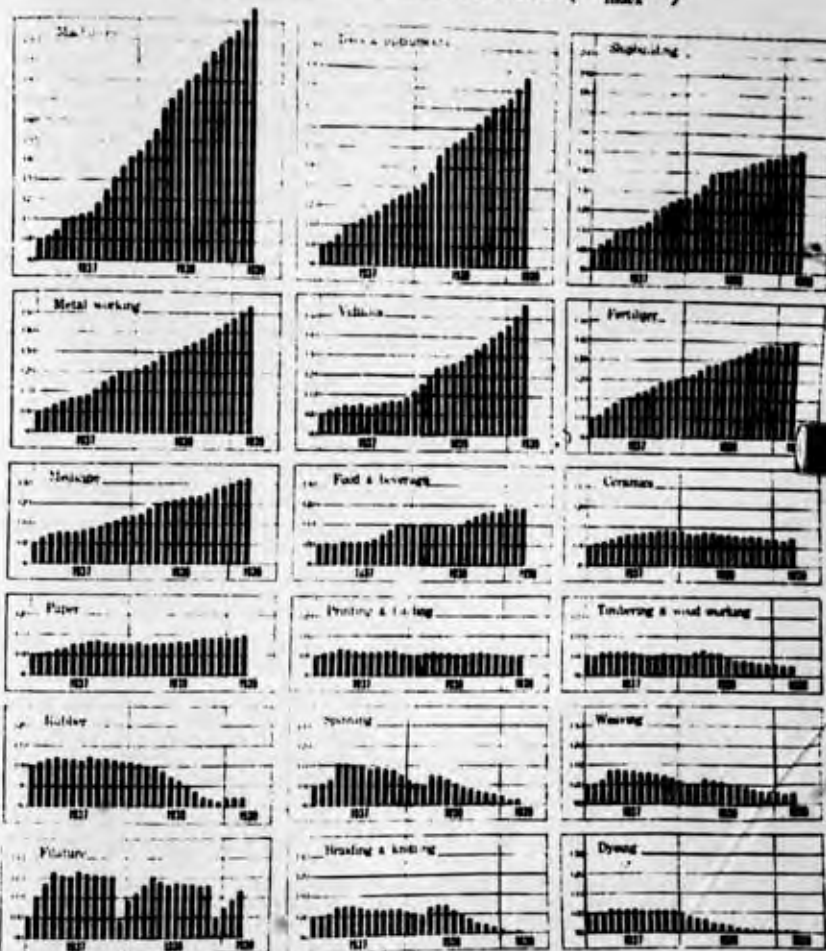
Soon thereafter, employment of all workers in war industries was restricted and made dependent upon consent of the government employment offices. Then followed, between July 1939 and September 1940, the National Civilian Conscription Act, making males between 15 and 50 in designated (war) industries subject to labor

assignment by the state; the Ordinance restricting the employment of young and juvenile workers (male 12-30, females 12-20), rationing the supply by quotas and giving preference to war industries; and the Ordinance to stop labor turnover, which instituted a universal system of work-record passbooks as a means of forcing labor market stability. Later, an industrial manpower directorate was created under the Labor Service Readjustment Ordinance, enforced on January 10, 1942. Employment and dismissal of workers in key industries, and assignment of training school graduates, were placed under control of the director of a National Employment Instruction Institute established by this Ordinance.

By now, Japan's training and apprenticeship program has been in effect nearly four years. The first class of graduates, trained in skills and technical knowledge, joined the active labor force in March 1942. This program should provide an increasing number of the skilled workers which effective prosecution of the war requires.

In manpower organization, the early difficult adjustments have been made. Needed transfers have been effected from non-essential to essential production; from agriculture to war industry. Administrative control of manpower is still not unified, since the National Employment Institute lacks control over (1) military conscription, (2) agriculture and allied occupations, (3) government personnel, and (4) designated Welfare-Ministry occupations. Official controls operate in all spheres, however, and it may be assumed that manpower recruitment, training and allocation will be handled with increasing efficiency.

PRIVATE FACTORY EMPLOYMENT (Bank of Japan Index)



Note: Bank of Japan Index reduced to the basis of Jan. 1937 = 100.

VII. PROBLEMS OF WARTIME ECONOMIC ADMINISTRATION

Summary

During the latter half of 1942 a continuous series of readjustments in economic administration reflected Japan's efforts to meet the demand for greatly increased arms production. In January 1943 radical proposals vesting much greater powers in Premier Tojo were submitted to the Diet in ordinance form. By February, while the ordinances were still being railroaded through the Diet, a specific program affecting the key industries from which greater production is required in the current stage of the war was being effectuated.

Five so-called "main" or "nucleus" industries--aircraft, shipbuilding, iron and steel, coal mining, and the light metals--have been given priority status with respect to materials, labor, capital, power, and transport facilities. Operational authority over these key industries is being centered in the Cabinet under Tojo's immediate direction. This program of "planned production" thus involves a radical centralization of administrative controls previously divided between the Cabinet Planning Board, the Ministries, and the Industrial Control Associations.

Difficulties in administrative coordination which prevailed in 1942 will be largely remedied under this new system. Production in the key spheres of iron and steel, coal, shipbuilding and aircraft will thereby be accelerated in 1943, thus adding a further increment to Japan's economic potential.

Nature of the Administrative Struggle

At the beginning of 1943 the Japanese were engaged in a radical overhaul of their system of economic administration, looking towards more centralized state control and operation of industry. Tojo himself, representing the Army, was seeking direct operational authority over the basic war industries, including iron and steel, coal, and chemicals. Resistance to this effort by the industrial leaders had created a minor, and probably temporary, crisis in wartime administration.

Underlying this struggle was a crisis in war production, mainly arising from the enormously increased tasks laid upon Japanese industry. The basic problem of vastly expanding shipping and armaments production against relatively inflexible limits of plant equipment, machine tools, and trained

personnel had passed into an emergency stage. These concrete difficulties in the production sphere were intensified by a lack of effective centralization in the administration of Japan's wartime economy. Administrative powers were scattered through a half dozen Cabinet Ministries, inadequately coordinated by the Cabinet Planning Board. A unified policy was thus lacking at the top, within the Cabinet itself. Under such conditions it was impossible for the Cabinet to give centralized direction to a newly organized set of Industrial Control Associations, which exercised semi-autonomous powers within the field of industrial management and operation.

The program submitted to the Diet by Premier Tojo in January 1943 was mainly designed to overcome this administrative disunity. Under the program, Tojo will be given authority to issue economic directives to any of the Ministries and to transfer administrative functions from one Ministry to another. Tojo will thereby be empowered to assign to a single Ministry, probably the Ministry of Commerce and Industry, centralized authority over the management of the key war industries. To facilitate this transition, the industries so affected will be directly taken over by the state, under powers conferred by the National Mobilization Law.

An internal struggle of considerable proportions is occurring while the new system is being put into effect. Once the change is made, however, it may be expected that a much more effective administration of wartime production will result. During 1943 this improved administrative system will materially assist Japan's efforts to increase production, thus adding a new increment to Japan's war potential.

Background of the Crisis

The full scope and magnitude of the economic problems confronting Japan have emerged only during the past six months. The initial tasks of the war, primarily involving conquest of Southeast Asia and the Southwest Pacific archipelagoes, were successfully accomplished by utilization of the stocks of finished munitions and the shipping tonnage accumulated during previous years. In the summer of 1942, with the beginning of the United Nations' counter offensives in the Solomons and New Guinea, much greater economic tasks had to be faced.

On the home front, industrial production had to be raised to new levels. The output of basic industry, especially iron and steel, coal, aluminum and copper, had to be increased. Industrial processing capacity had to be rapidly expanded in combat armament (notably aircraft) and shipbuilding.

Activities in the newly occupied territories had to be geared into this domestic program. Only the barest minimum of capital goods equipment could be allotted to the exploitation of the southern regions. Developmental projects had to be strictly adapted to the immediate requirements of Japan's home industry. Economic activity in the south was therefore mainly directed toward the rapid extraction of certain key minerals and agricultural products in which Japan was deficient and for which equipment and labor power were largely available on the spot. Machinery and tools were supplied to relatively few enterprises, among which the most vital were oil processing, extraction of a few of the key metals (lead, zinc, chrome and nickel), and possibly shipbuilding at Hongkong and Singapore.

Administrative Differentiation: Outer Zone vs. Inner Zone

These factors set the pattern for the major changes in Japan's administrative structure which have occurred during the war. Careful limitation of effort was required in the south, rapid expansion was needed in the north.

Outer Zone. The military governments in the south have meticulously regulated the degree of exploitation permitted by the Japanese business interests and carefully limited the flow of trained personnel into this area. Establishment of the Greater East Asia Ministry on November 1, 1942 was essentially aimed at confirming the rigid control over economic policy in the Outer Zone (mainly the southern territories) already being exercised by the local military administrations. The Army was determined to prevent a flood of private investors and entrepreneurs from swooping over the southern regions. It was keenly aware that no comprehensive long-term development of the new southern conquests could be permitted while the issue of the war was still undecided. It was intent on one aim--subordination of exploitative and developmental activities to the requirements of war.

The local southern military administrations could not of themselves assure the attainment of this aim. Authority over the broad lines of Ministerial policy in Tokyo had to be obtained. The Greater East Asia Ministry, vested with over-all administrative powers in occupied territories and dominated by the Army, was established in order to nail down this authority and make it secure. Jurisdiction of this Ministry extended to Manchuria, Occupied China, Southeast Asia and the Southwest Pacific, i.e., the territories

occupied since September 18, 1931. The old-line Ministries retained authority over the pre-1931 Japanese Empire (Japan Proper, Korea, Formosa, Karafuto, and the Mandated Islands).

The Inner Zone. The actual economic line of division, it should be emphasized, differs from this formal administrative line of division. The essential Inner Zone, which Japan must retain at all costs if its war economy is to function effectively, includes Japan Proper, Karafuto, Korea, Manchuria, North China, and Formosa.

The central problem of wartime economic administration did not lie in the southern territories. It lay rather in the Inner Zone and particularly on the home front in Japan Proper, where the munitions industry is largely concentrated. Here the task of raising productive capacity to new levels has proved complex, as indicated by a steady series of administrative readjustments. The year 1942 was marked by the formation of Control Associations in all fields of economic activity and by the increased powers assigned to the Cabinet Planning Board. These devices for unifying and centralizing the administration of war-time production were still inadequate. In January-February 1943, as already indicated, several basic industries were being subjected to government control and operation, while Tojo was seeking Diet approval for a set of unprecedented powers designed to concentrate full authority over wartime economic administration in his hands. A complex group of administrative problems lay behind this series of readjustments.

Administrative Problems on the Home Front

Japan's war economy is planned and administered not by special agencies but by the Cabinet headed by General Hideki Tojo. (See Chart). Over-all programs are initiated by the Cabinet Planning Board but are subject to Cabinet approval. Assignments of production schedules to the Control Associations are made by the competent Ministers. In order to make clear the difficulties which have arisen the roles played by these agencies must be examined in reverse order: (1) the Control Associations, (2) the Planning Board, and (3) the Ministries.

The Control Associations. Since the autumn of 1941, the greater part of Japanese industry has been marshaled into semi-official cartels. The ordinance empowering this program, known as the Major Industrial Organizations Control Ordinance, was approved on September 1, 1941. By June 1942 Control Associations had been formed for each key industry such as coal, iron, machinery and chemicals. Presidents of these Associations

were designated by the competent Minister and could be removed if they acted against the "public interest". In most branches of industry, however, private cartels had previously existed and the newly appointed presidents of the Control Associations were drawn virtually in toto from the leading executives of these organizations. Each Control Association was placed under the authority of a competent Minister of State; most of the Associations were responsible to the Minister of Commerce and Industry, the Minister of Finance, the Minister of Communications, or the Minister of Agriculture and Forestry. (See Chart in Appendix). Over-all production schedules, drafted by the Cabinet Planning Board, were assigned to the Control Association by the competent Minister. Each Association was then responsible within its field for control of production, the supply of funds, material and labor required, and the allocation of schedules among its member enterprises.

This streamlining of economic administration had obvious advantages. It helped to simplify the problem of scheduling production under emergency wartime requirements. Cabinet Ministers or members of the Cabinet Planning Board, in framing schedules and assigning quotas, were able to deal with broad over-all fields of industry, headed by a small group of business executives in the Control Associations. Ultimate responsibility for production, once the schedules were fixed, was placed on the Control Associations.

On the other hand, in actual operation the system revealed important drawbacks. It represented a compromise between the Army and big business which toned down the former's demand for strict government control. The Control Associations were organized essentially on lines proposed by the business monopolies (the Zaibatsu). They retained a large degree of autonomy in management. The various Ministers holding economic portfolios, moreover, might be inclined to give greater weight to the views of the Control Associations than to the demands of the Army. Under these conditions, it is difficult to assess the extent to which a "business-as-usual" attitude may have prevailed in the Control Associations.

More significant was the lack of effective centralization of administrative authority. The Planning Board drafted the over-all production schedules, but these schedules had to be approved and formally assigned to the Control Associations by the Ministries. Three different Ministries (Commerce and Industry, Communications, Agriculture and Forestry) were

involved in this process, while ordnance and naval ship-building were handled by factories directly controlled by the Army and Navy Ministries. The differing jurisdictions of the Planning Board, the Ministries, and the Control Associations created possibilities for delay and friction. The semi-autonomous powers of the various Control Associations permitted competition for raw materials and manpower which the several different Ministries could not themselves control.

These serious limitations on efficient administration of war production did not immediately become apparent. An indication of the difficulties encountered was the fact that in May 1942 the aluminum industry was subjected to full state control. Details in this case are lacking but, judging from later developments, the operational autonomy of the industry was abrogated in favor of direct administration by a government department, presumably the Ministry of Commerce and Industry.

Toward the end of 1942 a more serious, and much more general, crisis in the administration of the war economy developed. By this time the necessity for a large-scale expansion of munitions production to meet the demands of a long war had become urgent. The weaknesses of the existing system of economic administration had meanwhile become so pronounced that drastic changes were seen to be necessary. At the outset the problem was tackled through the Cabinet Planning Board.

Planning Board. The Cabinet Planning Board was, in effect, an instrumentality of the Army, designed since 1937 to function as an economic general staff and industrial mobilization agency. But, though its powers had gradually increased, especially through assumption of the authority to draft over-all production schedules, the Planning Board had never been able to set aside the ultimate control over the national economy exercised by the various Ministries. It considered bills drafted by the Ministries, prepared opinions on such bills, and could itself draft proposed legislation, but its actions were not binding on the government. In all cases, its recommendations had first to obtain Cabinet approval before being put into effect. It had largely influenced the drafting of the National Mobilization Law in 1938, but in 1940-1941 its program for outright state control of industry had been set aside in favor of the Control Associations' system proposed by the Japan Federation of Industry and the Japan Chambers of Commerce. In recent years, its most important function has been the drafting of production schedules--which, however, were subject to approval and enforcement by the Ministries.

The serious problem existing at the end of 1942 was first met by an attempt to strengthen the powers and coordinating influence of the Planning Board. A Committee for the Increase and Strengthening of Emergency Production was set up within the Cabinet in November. It was composed of representatives from each Ministry and its chairman was Lieutenant-General Teiichi Suzuki, chief of the Planning Board. The Committee was empowered to formulate and put into execution plans to increase emergency production of strategic commodities. This program was to be achieved by adjusting and unifying the administrative duties of the various Ministries with respect to labor, materials, transportation, vital consumption goods and the enterprises concerned with same. To facilitate application of the program, regional Deliberative Coordinating Councils based upon local administrative areas and composed of members of the various district offices of each Ministry were established. The first meeting of the new Committee was held in mid-December 1942, when plans were discussed for improving the distribution of materials and enhancing productive capacity. By this time, however, it had already become apparent that the new Committee would not be able to meet the demands of the situation. Much more radical moves, revealed at the Diet session in January, were already being prepared. These moves had been foreshadowed on November 20, when the aircraft industry was placed under direct administrative authority of the War Ministry.

Direct Government Control of Key Industries. Important steps in the direction of full state control of certain key industries (in addition to aluminum and aircraft) were announced at the end of January. The industries involved were iron and steel, coal and chemicals. In the latter case it was stated that the Commerce and Industry Minister would consolidate "167 medium and small (chemical) enterprises into a . . . cooperative and strong enterprise," and would "carry on a comprehensive management centered around a large-scale factory with superior facilities and techniques". These moves evidently envisaged unrestricted government appointment of the executives in the industries concerned as well as wholesale invasion of the sphere of management and operation. Such a program, applied to the great iron and steel and coal industries, was far different from the case provided by the relatively small and compact aircraft industry.

To put this radical program into effect, Premier (and War Minister) Tojo evidently felt that even greater administrative powers had to be placed in his hands. To this end, two ordinances were framed and submitted to the Diet for approval.

1. The first ordinance has not been outlined in detail. It is merely stated that it will give Tojo "a position one step above the other Ministers". This revolutionary constitutional innovation is apparently necessitated by reason of the economic directives he will henceforth be empowered to send to the various Ministers.

2. In regard to the second ordinance, it is stated: "The control of Japanese war production, which at present is apportioned among the Ministries, will be consolidated and put under the supervision of the Premier." To do this, the ordinance will empower Tojo (1) to take over special powers directly with regard to labor, transport, materials, power, and capital; and (2) to transfer Ministerial powers, i.e., to order the Commerce and Industry Minister, for example, to take over powers held by other Ministries.

These draft ordinances, along with the proposals to take over key industries, have given rise to an internal struggle of considerable proportions. The one-week postponement of the Diet session was apparently made necessary by the opposition which had developed to Premier Tojo's demands for increased economic powers. It seems unlikely that the opposition will be able to prevent approval and enforcement of the new program laid down by Tojo. The internal struggle thus precipitated may have the temporary effect of slowing down production rather than increasing it, especially as the issue runs so deep. The Army can in no sense bureaucratize industry completely; it does not have the trained men to do such a vast job. It can only take over supervisory and managerial authority, working through the Ministries and the Cabinet Planning Board. Such authority may be so extensive that the resentment of the business leaders will be reflected in the productive sphere. On the other hand, the Army evidently thinks it can get improvement by forcing a much greater and more direct measure of state control. As in previous instances it is likely that, once a decision is reached, the business leaders will accept the situation and work with the Army effectively.

By mid-February, even before the ordinances had gained Diet approval, the new program was being put into effect. A group of five industries--the so-called "main" or "nucleus" industries--had been set apart for special treatment. These were the aircraft, shipbuilding, iron and steel, coal mining, and light metal industries. For such industries (and for others expected to be added to the list) a program of "planned production" is to be applied, involving the following major elements:

1. They will be brought under Tojo's supervision through his new ordinance powers.

2. A schedule of production increase will be worked out by the Planning Board.

3. This schedule will no longer be tendered as "advice" to the Ministry concerned. Instead, Tojo will be able to order the competent Ministry to carry out the program.

4. In effectuating the program, the competent Ministry will be empowered to coopt materials, labor, capital, power, transport facilities, and living necessities (for the factory or mine workers).

5. The competent Ministry will assume much more direct administrative control over the "nucleus" industries. It will be able to appoint new directors, expand the industry, consolidate member units, etc., as it sees fit.

Under Tojo's new powers, as expressed in this system of "planned production" the centralization of authority over economic administration previously lacking will be obtained. This factor should materially increase efficiency of production during the coming year, especially after the immediate crisis over the readjustment has passed.

VIII. FACTORS AFFECTING JAPAN'S FUTURE ECONOMIC POLICIES

Japan is in the midst of a transition from a policy of expansion and conquest to a policy of consolidation and defense. This shift is not due to a present weakness or to a prospective decline in Japan's economic war potential. In fact, it is probable that Japan's capacity to produce combat armament will expand throughout 1943. It is due rather to the fact that Japan's relative position appears to be weakening because of (1) the expanding power of the United Nations (particularly in respect to naval construction in Japan as compared to that of the United States), (2) to the apparent weakening of the German position, and the possibility of a defeat of Germany which would leave Japan alone against the world.

These future considerations are influencing current Japanese economic policy. On the one hand Japan is making preparations to hold on to areas presently possessed as long as possible; on the other hand, provision is being made against the possibility that these areas cannot be held. Japan is, therefore, attempting to build the most complete economic self-sufficiency possible within an inner zone of defense.

Economic Factors Affecting Offensive Policies

This analysis should not be interpreted to mean that Japan lacks offensive power at the present time. It means rather that military factors have become relatively more important and economic factors less important in the determination of Japan's offensive policy now that the needed raw materials are in Japanese hands.

China. Insofar as economic considerations do influence policy, however, it may be said that the strongest inducement to offensive action lies in an effort to defeat China. China is the key to the economic consolidation of Japan's position, if not to its further expansion. The complete defeat of China would reduce the economic drain which guerrilla warfare and the maintenance of a large active army in China entails. It would also make possible a much more effective exploitation of the resources of China which Japan already possesses.

India. The second most important economic inducement to offensive action is in northeastern India. The triangle formed by Calcutta, Jamshedpur and Burnpur constitutes the industrial heart of India. Three-fourths of all war production including nearly all of the munitions plants are located here.

Virtually all of India's iron and steel are produced in the Tata Iron and Steel Works at Jamshedpur and in the Bengal Steel Corporation's plant at Burnpur.

The principal mica deposits now available to the United Nations are at Hazaribagh just north of this district. The only jute producing region and the world's largest jute manufacturing industry is nearby, northeast of Calcutta. The principal iron ore deposits and the principal coal fields are immediately south of this industrial triangle. From the point of view of Japan the processing capacities (particularly the steel and munitions plants) are more important than the raw materials. The obvious advantage of depriving the United Nations of the only remaining important industrial base in Asia is also a significant consideration.

Siberia. The immediate economic inducements to offensive action in Eastern Siberia are relatively unimportant. Hence, if action is taken in this area, it will probably be due to military rather than economic considerations.

On the other hand, it should be noted that the economic base for offensive action against Siberia (in terms of stock-piles, arsenals, strategic rail lines and port facilities) is the most powerful in any area outside of Japan Proper. It should also be noted that Japan's present imports from Korea and Manchuria require over sixteen clearances a day from ports in these areas. These ships carry less than one-half of a full cargo on their return voyage from Japan, thus making it possible to ship men, munitions and supplies to Korea and Manchuria without increasing the need for new tonnage. Hence, an all-out offensive against Siberia would not interfere with Japan's economic program as seriously as the size of these operations would imply.

From an economic point of view the opposing considerations are that Japan's two greatest economic weaknesses are shipping and the great Japanese industrial centers, both of which are threatened in case of action against Siberia. In considering offensive action in this area, Japan would thus need to balance the military advantages against the possible economic disadvantages of submarine action against Japanese shipping and bombardment of Japanese industries. The answer would depend upon the rapidity of Japan's occupation of the coastal area from which Russia must employ these tactics.

Continental and Island Air Bases to Consolidate
Japan's Economic Position

Under existing conditions there is a logical trend from sea power to land based air power as a basis for the consolidation and defense of Japan's present empire. Such a system would be made up of a network of air bases extending down the Asiatic Coast and dotting the islands of the Southwest Pacific. Its complete development would require an inland rail transport system extending along the Asiatic coast from North China to Singapore arranged so as to give maximum support to such air bases. It would also require a sufficient development of machine shops, productive facilities and assembly plants to provide the equipment necessary for their maintenance.

To complete such a program would require a greater economic effort than Japan can make in 1943. Many steps have been and can be undertaken, however, which will yield immediate advantages that make them worthwhile. A program of this sort tends to emphasize the importance of offensive action in China in order to consolidate Japan's continental position and to make it possible to develop a genuine continental rail system from Manchuria to Singapore.

The Prospective Increase in Japan's Economic
Potential During 1943

Japan possesses raw materials in quantities potentially sufficient to employ from two to three times the present volume of Japanese shipping and processing capacities.

Because of limitations in these latter respects, however, the actual overall increase in Japanese productive capacity during 1943 will be only a small fraction of this potential.

It is estimated, for example, that the steel and the power output of Japan will increase only by about 10 percent during the current year. Since most of this increase is devoted to combat armament, however, increases in the production of war material will be considerably greater. The production of aircraft probably will increase about 25 percent, tanks and trucks 16 percent, ordnance 22 percent, locomotives 10 percent and freight cars 15 percent.

The Economic Position of Japan as Compared
With Other Major Powers

Prior to the attack of Pearl Harbor Japan's economic potential was under-estimated, but because of the powerful

Japanese offensive during 1942, there has been a tendency to swing to the other extreme. Japan's basic economic capacities are considerably smaller than those of any other major belligerent power with the exception of China. Table 30 provides a basis for comparison in the three leading categories of steel, coal and electrical power. The great superiority in the basic economic strength of the United Nations is not meaningful, however, until it is embodied in combat armament and the capacity to transport it. A comparison between Japan and the United States alone indicates how rapidly Japan will be out-distanced in these respects during the current year. It is estimated, for example, that the United States will construct over 18,000,000 deadweight tons of new shipping during 1943 whereas Japan will probably construct not more than 650,000 gross tons (approximately 1,000,000 deadweight tons). The total aircraft production in Japan during the current year will approximate 9,000 planes of all types whereas the United States will produce approximately 100,000 planes. Similar differences are to be found in naval construction, tanks and trucks, and ordnance.

The following factors, however, largely offset these advantages of the United Nations:

(1) Four to five times as much economic potential is being devoted to the European theatre as is being devoted to the Far Eastern theatre of action.

(2) The shipping of the United Nations is insufficient to make available combat armament fully effective at those points where it is required.

(3) Japan has been stockpiling combat armament for over a decade. Hence, even if Japan were forced to a much higher level of war activity, a considerable period would elapse before reliance would have to be placed upon current production.

(4) Japan has achieved geographic positions both on the continent and in the island areas of the western Pacific which give maximum protection to the heart of the Japanese economic system. The heart of this system and the essential elements of Japan's war potential are concentrated in a northern Inner Zone, embracing Japan Proper, Korea, Manchuria, North China and Formosa.

TABLE 28

Estimated Current Annual Production in Three Key Industries, in United States, United Kingdom, U.S.S.R., Japan, Axis Europe, 1943

Country	Steel Ingots (1000 metric tons)	Coal (1000 metric tons)	Electric Power (1,000,000 kilowatt hours)
Japan	7,200	59,500	55,840
Japan, Korea, Manchuria and North China	9,000	103,000	75,350
U.S.S.R.	14,000	90,000	22,500
U.S.S.R. (Pro-1941)	20,500	171,000	58,500
Axis Europe	40,000	611,000	135,000
United Kingdom	12,000	250,000	31,000 ^{b/}
United States	82,600	603,500	237,000

a/ May now be less; last available figure is for 1938.

IX. THE CONCENTRATION OF JAPAN'S ECONOMIC POTENTIAL IN THE INNER ZONE

Japan is concentrating on a long-term program designed to make the inner zone self-sufficient for war purposes. There is a popular impression that the occupation of the rich raw materials area in Southeast Asia led to a suspension of this program. On the contrary, the raw materials in the inner zone have been exploited more intensively. The building of synthetic oil plants, the utilization of aluminum shale, and the extraction of iron ore, for example, have all been promoted in order to increase self-sufficiency in this area. At the same time the development of basic processing capacity already centered here has been carried on as rapidly as possible.

As a result of these policies the continental areas near Japan (Korea, Manchuria, and North China) have become a very substantial part of Japan's total war economy. In the processing industries important in war (particularly iron and steel), these areas have become so closely integrated with industry in Japan Proper as to constitute an indispensable part of the whole. The following summary indicates (1) the growing dependence of Japan Proper on the other parts of the inner zone and, (2) the remarkable degree of self-sufficiency which has now been achieved within the inner zone.

Processing Capacity

Well over 90 percent of the processing capacity of the greater East Asia sphere is concentrated in the north. The concentration of war industry in the Inner Zone is almost complete.

Heavy industry, moreover, is no longer centered almost entirely in Japan Proper. A complete picture of the industrial plants in Manchuria and Korea is not available, but enough is known to indicate a substantial increase in Japan's dependence on the continent's processing capacity during recent years. This dependence is most marked in the iron and steel industry. In other fields, such as the production of chemicals, the processing of bauxite and alum shales, the output of ordnance, synthetic and shale oil production, and assembly (and partial manufacture) of airplanes, tanks and trucks, Japan's reliance on the rest of the Inner Zone has also increased.

Figures on electric power installations afford a rough measure of the Manchurian-Korean-Formosan contribution to the Inner Zone's processing capacity. Of total installed capacity of roughly 17,000,000 kilowatts, Japan Proper has 77.7 percent,

while Korea, Manchuria and Formosa together have 22.3 percent. (If these figures are accepted as an index of processing capacity, nearly one-quarter of the Inner Zone's processing now takes place outside Japan Proper.) In 1937 Korea, Manchuria and Formosa possessed considerably less than 20 percent of the power installations.

Iron and Steel

As a result of the pressure to increase iron ore extraction and to expand blast furnace capacity in the Inner Zone during recent years, virtual independence of outside supplies has now been assured. A summation of production rates reached by Japan's iron and steel industry in 1942 may be expressed in a series of four figures: iron ore utilization (16,000,000 tons); pig iron production (6,200,000 tons ^{2/}); gross steel ingots (9,000,000 tons); semi-finished steel (6,300,000 tons ^{3/}). (See the chart of Production of Ferrous Raw Materials, Iron and Steel in the Appendix).

The only possible Inner Zone shortage in this series would be in the iron ore. Of the 16,000,000 tons of crude ore utilized at this rate, the Inner Zone would supply at least 13,000,000 tons. It may well have supplied an even greater proportion. The amount will increase this year. In case Japan were forced to rely solely on the iron ore resources of the Inner Zone, the required amounts could be produced. Meanwhile, imports of Central China, Malayan or Philippine iron ore facilitate the transition to complete Inner Zone self-sufficiency. Not lack of iron ore but lack of rolling mill capacity is the limiting factor in Japan's steel output. The iron ore comes almost entirely from the continent. Of the 13,000,000 tons of iron ore allotted to the Inner Zone in 1942, Japan Proper supplied only 6.5 percent. The other 93.5 percent was produced by Korea, Manchuria, and North China.

An output of 6,200,000 tons of pig iron was estimated for 1942. (There was also an additional 400,000 tons of sponge iron.) Blast furnace capacity of the Inner Zone, however, has already been developed to the point at which it could easily reach pig iron output of 8,000,000 tons. Manchurian-Korean blast furnace capacity is being steadily extended, indicating that the continental regions of the Inner Zone are being made the pig iron center of the empire. The idle blast furnace capacity which now exists is in Japan Proper. The Inner Zone supplied virtually all the pig iron of the Greater East Asia sphere in 1942. Of the 6,200,000 tons, Japan Proper produced 56.5 percent, Manchuria 30.6 percent, and Korea 12.9 percent.

^{2/} Excluding an additional 400,000 tons of sponge iron
^{3/} Excluding an additional 500,000 tons of cast iron

Approximately 9,000,000 tons of gross steel ingots were produced in 1942. Steel furnace capacity (open hearth and electric) is also somewhat larger than the 1942 output. Excess capacity is much less than in the case of blast furnace capacity, however. Of the 9,000,000 tons of gross steel ingots, Japan Proper supplied 80 percent, Manchuria 16.7 percent, and Korea 3.3 percent.

During 1943 rolling mill capacity will continue to be the main limitation on steel production. Some increase will be attained, but at a slow rate. By the end of 1943 the present annual rate of 6,300,000 tons of steel for finished products may possibly have reached a rate of 7,000,000 tons. Of the 6,300,000 tons output, Japan Proper supplied 80.4 percent, Manchuria 16.1 percent, and Korea 3.5 percent. (This breakdown excludes an additional 800,000 tons of cast iron).

In summary, the processing capacity of the iron and steel industry is concentrated almost 100 percent in the Inner Zone. Only iron ore, and that in small amounts, comes from the Outer Zone. Under pressure the steel industry could dispense with these southern ores and still maintain production at current or even considerably increased rates.

In this industry, Japan Proper is heavily dependent on the continental parts of the Inner Zone. Manchuria, Korea and North China supply 93.5 percent of the Inner Zone's iron ore, 43.5 percent of the pig iron, 20 percent of its gross steel ingots, and 19.6 percent of its semi-finished steel.

Coal

A third basic economic index is coal. The Inner Zone supplies virtually the whole of the Greater East Asia sphere's output of coal--that is, roughly 100,000,000 tons out of a total of possibly 112,000,000 tons. Japan Proper supplies 52.1 percent, the rest of the Inner Zone 41.4 percent, and the Outer Zone only 6.5 percent.

In this connection, it should be noted that Japan's total consumption of coking coal is supplied by the Inner Zone. Japan's dependence on the continental sector of the Inner Zone is increased by the fact that large amounts of coking coal are derived from North China. Also, more than half of the coke oven capacity is on the continent--Japan Proper supplying 45.8 percent, Manchuria 49.9 percent, and Korea 4.3 percent.

Other Economic Potential

Salt. Production of salt (basic for a number of important chemicals) is also largely concentrated in the Inner Zone. Out of an estimated 1943 consumption of 2,650,000 tons in Japan Proper, the Inner Zone will contribute 85.7 percent. Of this amount Japan Proper will supply 22.6 percent, and the rest of the Inner Zone 64.1 percent.

Foodstuffs. The Inner Zone has been traditionally self-sufficient in foodstuffs. Although the food supply has grown tighter in the last few years, the basic situation has not been essentially altered. In 1943, estimated on the basis of a poor Korean crop, the Inner Zone will supply 91.8 percent of Japan Proper's consumption of the food staple--rice. Of this amount, Japan Proper will supply 84.9 percent, leaving only 6.9 percent to be supplied by Formosa and Korea. In a normal year, Korea would supply a greater amount. There is also a large stockpile of rice in Japan Proper.

Transport. Should Japan be forced to withdraw into the Inner Zone, its lines of communication would be greatly shortened. The shipping deficit would be turned into a shipping surplus, although heavier attacks from nearer United Nations bases might make this result temporary. The Inner Zone, moreover, is provided with the best land transport facilities of the G.E.A. sphere. It contains roughly 65 percent of the railway mileage and more than 75 percent of the rolling stock of the whole sphere.

TABLE 29

Concentration of Japan's Economic Potential
in the Inner Zone ^{a/}

	Inner Zone Percent of G.E.A. Sphere	Percent of Total Supplied by Inner Zone Excluding Japan Proper
Processing Capacity	well over 90	possibly 25
Iron Ore	well over 80	93.5
Pig Iron	virtually 100	43.5
Gross Steel Ingots	virtually 100	20.0
Semi-finished steel	virtually 100	19.6
Coal	93.5	41.4
Coke Oven Capacity	well over 90	54.2
Salt ^{b/}	86.7	64.1
Rice ^{b/}	91.8	6.9

^{a/} Recapitulation of indices presented above
^{b/} In percentages of total consumption by Japan Proper

Stockpiling of Raw Materials from Outer Zone

Japan's dependence on the raw materials of the Outer Zone, as already indicated, does not extend to coal, iron ore, salt, or rice. In the case of many other southern raw materials, however, an extreme measure of dependency has existed. All evidence points to a deliberate policy since the latter half of 1942 to reduce this dependency -- (1) by continuing the development of the Inner Zone, and (2) by stockpiling from the south where Inner Zone deficiencies exist. In 1943, as the military position of Germany deteriorates and as the pressure of United Nations' operations increases on the periphery of the G.E.A. sphere, the Japanese will intensify their efforts to fortify the Inner Zone in these respects. By the end of 1943 they will already have gone far in this direction.

Progress in this effort can be measured by estimating the extent to which stockpiles accumulated in 1942-1943 will carry the Inner Zone through 1945. A rough estimate of this kind yields the following results:

1. The supply of a number of raw materials has already been assured through 1945. This list includes manganese, tungsten, molybdenum, vanadium, copper, and mercury. Inner Zone production of vanadium now covers requirements, while molybdenum is covered by Inner Zone production and a large stockpile. Imports of manganese, tungsten, copper, and mercury plus Inner Zone production, have already assured a supply through 1945.

2. A second list would include tin and rubber. Relatively small amounts of these commodities have to be brought in from the south in 1943 to complete a stockpile adequate to carry the Inner Zone through 1945.

3. Two groups of raw materials present special problems:

Bauxite will probably not be imported in sufficient amounts in 1943 to cover needs through 1945. Alum shales in the Inner Zone, however, represent a substitute for bauxite, while the large Korean and Manchurian magnesite deposits can be developed for the production of magnesium. Aluminum requirements can be adequately met from these substitute materials, plus the stockpile of bauxite that will exist.

Fibers (and analogous materials) for clothing and other uses present a more complicated and somewhat more difficult problem. There is an absolute shortage in cotton, wool, and jute. Substitutes from the Outer Zone include kapok, hard cordage fibers, hides and leather, and rubber. Substitutes from the Inner Zone include rayon, staple fiber, silk, hides and leather, and furs. Although some difficulty is being

experienced (indicated by the 25 percent cut in the 1943 clothing ration for Japan Proper), it may be anticipated that the considerable range of substitutes will meet the problem.

4. This leaves a small group of seven raw materials which apparently cannot be stockpiled from the south in 1943 on a scale adequate to carry through 1945. The list includes oil, lead, zinc, nickel, chromium, antimony and cobalt. By the end of 1943, however, at least one year's stockpile of oil, antimony and chromium, and close to one year's stockpile of lead, zinc, nickel and cobalt, will exist.

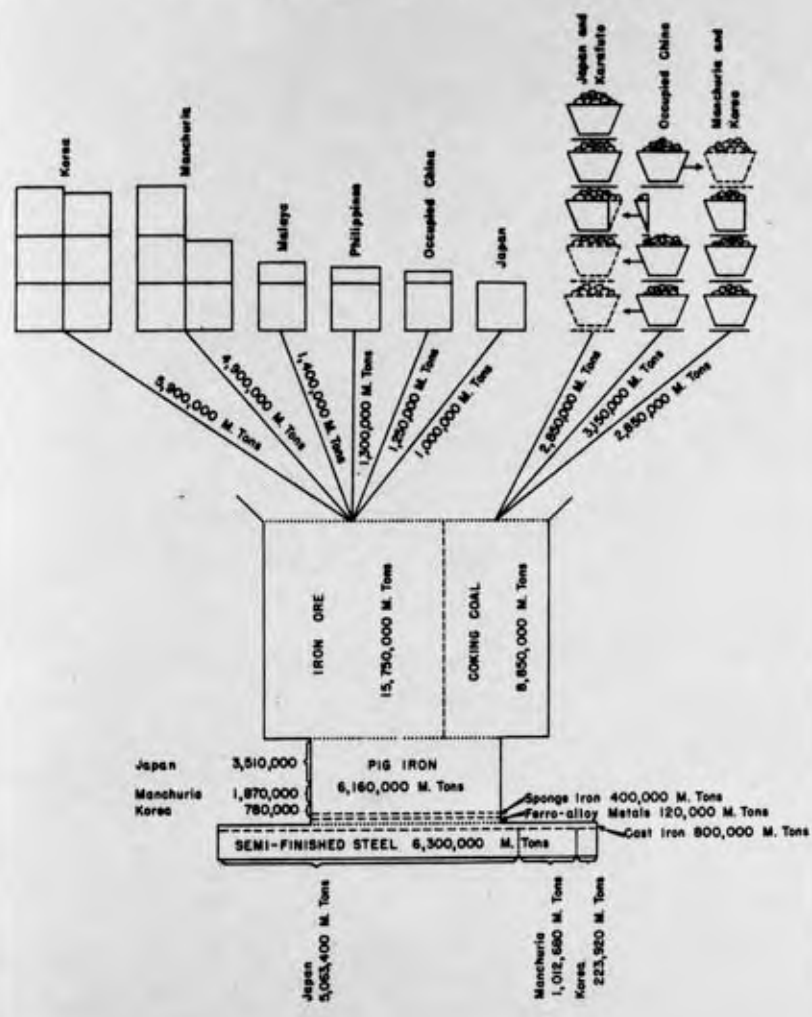
The oil problem deserves special mention. Intensive development of synthetics, shale oil and crudes is steadily increasing the Inner Zone's production. Oil experts estimate that about 18,000,000 barrels will be produced in the Inner Zone during 1943. Of this total, 10,500,000 barrels are from synthetic processes, 4,000,000 from natural crudes, and 3,500,000 from shale. The regional breakdown shows 44.8 percent from Japan Proper and 55.2 percent supplied by the rest of the Inner Zone. In this field, also, the degree of dependence of Japan Proper on the rest of the Inner Zone is significant.

Japan's 1943 consumption of petroleum products is estimated at 50,600,000 barrels, equivalent of 56,000,000 barrels of crude oil. The estimated 18,000,000 barrels of crude oil produced in the Inner Zone accounts for nearly one-third of the total consumption, and nearly one-quarter the estimated annual fuel oil requirements. Withdrawal to the Inner Zone, however, would bring a large decline in Japan's oil requirements. For 1943 the Japanese navy and merchant marine will consume an estimated 36,690,000 barrels of petroleum products. This item, in particular, would be considerably reduced if Japan was forced back into northern waters.

Under these conditions, Japan would possess an estimated 18,000,000 barrels of domestic production, plus the stocks on hand. As estimated by the Oil Committee, the stockpile of petroleum products will total 61,920,000 barrels on January 1, 1944. It is perhaps unlikely that the whole of this amount would have been transported to Japan by that time. Nevertheless, it seems probable that the stockpile within Japan Proper, plus the Inner Zone production, would then be adequate to cover all needs for at least a year, with naval and merchant marine requirements at the present level. If Japan withdraws to the Inner Zone in 1944, the demands of the Navy and Merchant Marine for fuel oil may be cut by one-half. Under these conditions, Japan's supply of petroleum products in all categories would be sufficient to last at least two years.

In conclusion, it is clear that the heart of Japan's economic strength lies in the north. Under the present and prospective circumstances of the war, the southern regions form little more than a raw material appendage to the Inner Zone. They are rapidly being milked of their easily available and most essential supplies. Japan has been in possession of the southern areas long enough -- or will have been by the end of this year -- to fortify its position in the north for a prolonged stand. Only defeat in the Inner Zone and the breaking of Japan's grip on Manchuria and Korea, therefore, will effectively cripple the Japanese war economy.

PRODUCTION OF FERROUS RAW MATERIALS, IRON AND STEEL IN JAPAN AND OCCUPIED AREAS



- = Production of Iron Ore (1,000,000 M. Tons)
- = Production of Coking Coal (1,000,000 M. Tons)
- = Shipments of Coking Coal from Producing Area to Consuming Areas (1,000,000 M. Tons)

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DRAWN IN THE CARTOGRAPHIC SECTION, B.E.W., NO. 391

JAPANESE REQUIREMENTS FOR, AND PRODUCTION OF METALS

(UNLESS OTHERWISE SPECIFIED THE FIGURES R

Commodity	General Appraisal of Japanese Position	Estimated Japanese Stocks on Hand Jan. 1, 1943	Estimated Total Japanese Requirements 1943	Estimated Total Production Available to Japanese 1943	Estimated Japanese Stocks on Hand Jan. 1, 1944	Estimated Production in Japan, 1943			Estimated Production in Korea, 1943			Estimated Production in Formosa, 1943			Estimated Production in Manchuria, 1943		
						Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production
Iron Ore & Ferro-alloys (metric tons metal content)																	
Iron Ore (Fe content)	Improving but shipping may be a limiting factor	Virtually none	7,321,000	7,321,000	Virtually None	450,000	6.1	6.1	2,079,000	28.4	28.4	—	—	—	2,400,000	32.8	32.8
Manganese	Stable. Some expansion is possible	300,000 or less	1/ 70,000-100,000	91,500	291,500-321,500	35,000	35.0	38.2	—	—	—	—	—	1,000	1.0	1.1	
Chromium	Improving, but vulnerable because of concentration of production	30,000-40,000	1/ 15,000-30,000	43,000	43,000-68,000	3,000	10.0	7.0	—	—	—	—	—	—	—	—	
Nickel	Improving but highly vulnerable	4,000	10,000	12,500	6,500	2,500	25.0	20.0	—	—	—	—	—	—	—	—	
Tungsten (metric T.60% WO ₃)	Adequate supplies probably assured indefinitely	10,000 †	6,000	14,800	17,800 potential	Neg.	2/	2/	2,500	41.6	16.8	—	—	—	—	—	
Molybdenum	Strong	2,460	400	1304	2,210	Neg.	2/	2/	100	25.0	100.0	—	—	—	40	10.0	26.7
Cobalt	Vulnerable but unimportant	In manufacture only	100	1/ 116-266	16-166	13	13.0	4.9	3	3.0	1.1	—	—	—	Some potentially	2/ 2/	
Vanadium	Strong & Improving	650†	150	400	90†	400	266.6	100.0	—	—	—	—	—	—	Some potentially	2/ 2/	
Non-ferrous metals (metric tons metal content)																	
Bauxite (metric tons ore)	Improving but potentially vulnerable	400,000	500,000	500,000	400,000	—	—	—	—	—	—	—	—	—	—	—	
Shale, alundite, etc. (metric tons ore)	Safe	Small	200,000	210,000 †	Small	15,000	7.5	7.1	75,000	37.5	35.7	—	—	120,000†	60.0	57.2	
Magnesium	Capacity far in excess of needs	2,000 or less	1/ 13,000-15,000	17,200	Ample	6,700	44.6	34.9	5,000	33.3	29.1	5004	3.3	2.9	5,000	33.3	29.1
Copper	Deteriorating. Dependence on stocks	113,000	170,000	150,000	93,000	108,000	63.3	70.0	12,000	7.1	8.0	11,000	6.5	7.3	5,000	2.9	3.3
Lead	Potentially strong but highly vulnerable	61,300	109,000	117,600	73,900	12,300	11.7	10.5	10,000	9.5	8.5	—	—	20,000	19.0	17.0	
Zinc	Improving but dependent on shipping and vulnerable	60,000†	95,000	109,600	76,600†	29,800	31.3	27.2	18,200	19.1	16.7	—	—	17,600	18.5	16.1	
Mercury	Strong but potentially vulnerable	1,400	500	1/ 21-500	1,000 †	20	4.0	4.0	1	0.2	0.2	—	—	—	Some potentially	2/ 2/	
Tin	Tin is problem of surplus rather than of deficit.	Ample	12,000	156,600	144,600 † potential	7,000	16.6	1.3	—	—	—	—	—	—	—		
Antimony	Depends on smuggling from Free China	4,000 or less	4,300	10,600 or less	10,000 or less	300	6.6	2.8	Neg.	2/	2/	—	—	—	Some	2/ 2/	
Platinum (Troy ounces)	Weak. Depends entirely on stocks and smuggling	Unknown	12,000	60	Unknown	35	0.3	38.3	—	—	—	—	—	—	—		
Silver	Safe. Silver is not essential	Unknown	about 600	about 600	Unknown	280	46.7	46.7	70	11.6	11.6	0.36	0.6	0.6	.2	.03	.03
Arsenic	Strong	Ample	2,500	3,500	Ample	3,500	140.0	100.0	—	—	—	—	—	—	—		

1/ The Hiroba Mine is used in all computations.

2/ † Included in total

3/ † Hong Kong provided the Lin Ma Hong Mine is in operation.

4/ From occupied China, Thailand, Malaya, Netherlands, India, and Philippines, approximately 4,000 metric tons.

AVAILABLE TO THE JAPANESE, BY PRODUCING REGIONS, 1943
 (REFER TO THE TOTAL JAPANESE WAR ECONOMY)

Production Available to Japanese	Estimated Production in Occupied China, 1943		Estimated Production in Japanese Ruled Is. 1943			Estimated Production in Philippines Is., 1943			Estimated Production in S.F.I., Borneo, New Guinea, Timor, etc. 1943			Estimated Production in Indo-China, 1943			Estimated Production in Thailand, 1943			Estimated Production in Malaya, 1943			Estimated Production in Burma, 1943			Estimated Production from Other Sources Available to Japan, 1943		
	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production
800,000 *	10.9	10.9	--	--	--	780,000	10.7	10.7	--	--	--	--	--	--	--	--	417,000	11.1	11.1	--	--	--	--	--	--	
7,000	7.0	7.7	--	--	--	30,000	30.0	32.8	6,000	6.0	6.6	1,500	1.5	1.6	--	--	11,000	11.0	12.0	--	--	--	--	--	--	
--	--	--	--	--	--	40,000	133.3	93.0	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
--	--	--	--	--	--	--	--	--	9,000	90	72.0	--	--	--	--	--	--	--	--	--	1,000	10	8.0	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--	500	8.3	3.4	300	5.0	2.0	500	8.3	3.4	6,000	100	40.5	9000 Free China	81.3	33.9
30	2.3	6.6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	100-250	190	94.0	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
--	--	--	60,000	12	12	--	--	--	300,000	60	60	40,000	8	8	--	--	100,000	20	20	--	--	--	--	--	--	
Potentially	2/	2/	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
--	--	--	--	--	--	12,000	7.1	8.0	--	--	--	--	--	--	--	--	--	--	--	--	2,000	1.1	1.3	--	--	
4,300	4.3	3.4	--	--	--	300	0.3	0.2	--	--	--	900	0.9	0.4	--	--	--	--	--	--	70,000	66.6	59.6	--	--	
2/	2/	2/	--	--	--	2/	2/	2/	2/	2/	2/	20,000	21.0	18.2	2/	2/	2/	2/	2/	2/	20,000	21.0	18.2	40002/	6.2	3.6
--	--	--	--	--	--	--	--	--	Some Potentially 45,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--	479 Free China "Europe"	95.8	95.8
--	--	--	--	--	--	--	--	--	375.0	28.7	28.7	1,900	12.5	1.0	17,500	145.8	11.2	89,000	706.3	54.7	1,600	46.7	3.5	--	--	
--	--	--	--	--	--	--	--	--	Some	2/	2/	100 *	2.2	0.9	--	--	--	--	--	--	200	4.4	1.9	10,000 or less from Free China	222.2	94.3
--	--	--	--	--	--	--	--	--	25	0.2	41.7	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Sum	2/	2/	--	--	--	40	6.7	6.7	40	6.7	6.7	.2	.03	.03	--	--	0.1	.02	.02	170	28.3	28.2	--	--	--	

JAPANESE REQUIREMENTS FOR, AND PRODUCTION OF NON-METALS (UNLESS OTHERWISE SPECIFIED THE FIGURES ARE IN METRIC TONS)

Commodity	General Appraisal of Japanese Position	Estimated Japanese Stocks on Hand Jan. 1, 1943	Estimated Total Japanese Requirements 1943	Estimated Total Production Available to Japanese 1943	Estimated Japanese Stocks on Hand Jan. 1, 1944	Estimated Production in Japan, 1943			Estimated Production in Korea, 1943			Estimated Production in Formosa, 1943			Estimated Production in Manchuria, 1943		
						Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production
Non-Metallic Minerals (metric tons)																	
Industrial Diamonds (carats)	Possibly Critically short	Probably none	300,000	10,000	Probably none	—	—	—	—	—	—	—	—	—	—	—	—
Coal, total	Shipping is a limiting factor	Small	117,460,000	117,460,000	Small	59,500,000	52.9	52.9	6,800,000	5.8	5.8	2,500,000	2.2	2.2	21,000,000	18.7	18.7
Oil, natural and synthetic (barrels) of crude oil equivalent	Potentially strong but highly vulnerable	90,000,000	50,000,000	75,700,000	19,730,000	11/17,200,000	30.7	32.7	Included under Japan			Included under Japan			11/3,500,000	6.3	4.6
Asbestos	Deteriorating. Dependent on stocks	89,170	20,000	5,170 *	74,340	1,200	6.0	25.2	70	0.3	1.3	—	—	—	3,300	16.5	63.9
Florespar	Stable. Requirements flexible	Small	24,000	24,000	Small	—	—	—	11,000	45.8	45.8	—	—	—	8,000	33.3	33.3
Graphite (crystalline)	Stable	Ample	8,000	12,000	Ample	—	—	—	12,000	150.0	100.0	—	—	—	—	—	—
Graphite (amorphous)	Stable	Ample	60,000	65,000	Ample	—	—	—	65,000	108.3	100.0	—	—	—	—	—	—
Mica (high quality)	The critical factor, quality, is not known.	2,000 Including low grade	600 *	800 2/	High quality probably small	—	—	—	800 2/133.3	100.0	—	—	—	—	Some	1/	1/
Phosphate rock	Weak but improving	Very small	1,070,000	840,000	Probably none	—	—	—	10,000	3.7	4.7	—	—	—	—	—	—
Salt 1/	Salt is a limiting factor in chemical production	100,000-200,000	2,650,000	2,650,000 1/	100,000-200,000 1/	600,000	22.6	22.6	—	—	—	200,000	7.5	7.5	600,000	22.6	22.6
Miscellaneous (metric tons)																	
Bristles	Large surplus of most grades available for export	Ample	300	3,000	2,700 *	Small	1/	1/	—	—	—	—	—	—	600	200.0	20.0
Hides and leather 1/	Probably adequate	10,000 Potential	37,000 *	41,100	13,000 or less	5,000	13.5	12.2	2,000	5.4	4.9	600	1.6	1.4	5,000	13.5	12.2
Lumber 2/ (million board ft.)	Adequate	Negligible	15,000	15,000	Small	11,500	76.7	76.7	2,525 2/	16.8	16.8	1/	1/	1/	1/	—	—
Quinine	Very large surplus	300	120	1,135 Potentially	1,315 Potentially	—	—	—	—	—	—	—	—	—	—	—	—
Rubber	Rubber is a problem of surplus rather than of deficit	100,000	60,000-100,000 1/	1,250,000 Potentially	1,250,000 Potentially	—	—	—	—	—	—	—	—	—	—	—	—
Tanning materials (vegetable)	Dependent on adequate stocks	35,500	25,000	18,000	28,500	500	2.0	2.8	25,000 1/ Unspecified	—	—	—	—	—	—	—	—

* Not included in total.
 Quality unknown.
 Reference is to requirements for and production available to Japan Proper only.
 Reference is to requirements for and production available to Japan Proper only.
 The Japanese could probably use almost 1,000,000 tons more if it were available.
 Requirements and stocks, etc., pertain to Japan Proper and Japanese armies.
 Reference is to requirements for and production available to Japan Proper only, unless otherwise specified.
 Including Formosa and Karapulo.
 See under Korea.
 Manchuria is a deficit area.
 All computations based on the higher figures.
 The figure for Japan includes all production (13,500,000 barrels) of synthetic oil and substitutes in Japan, Korea and Manchuria.
 The figure for Manchuria is for shale oil only.

ALLIC MINERALS AND MISCELLANEOUS PRODUCTS AVAILABLE TO THE JAPANESE, BY PRODUCING REGIONS, 1943
 (REFER TO THE TOTAL JAPANESE WAR ECONOMY)

Estimated Production in Occupied China, 1943			Estimated Production in Japanese Mandates, 1943			Estimated Production in Philippines, etc., 1943			Estimated Production in Burma, New Guinea, Timor, etc., 1943			Estimated Production in Indo-China, 1943			Estimated Production in Thailand, 1943			Estimated Production in Malaya, 1943			Estimated Production in Burma, 1943			Estimated Production from Other Sources Available to Japan, 1943		
Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production
—	—	—	—	—	—	—	—	—	10,000	3.3	100	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
38,000,000	16.0	16.0	—	—	—	60,000	0.1	0.1	1,800,000	1.6	1.6	2,500,000	2.2	2.2	—	—	—	600,000	0.5	0.5	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	55,000,000	98.2	70.7	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
600	3.0	11.6	—	—	—	Some	1/	1/	—	—	—	Some	1/	1/	—	—	—	—	—	—	—	—	—	—	—	—
3,000	20.8	20.8	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Some inactive	1/	1/	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
100,000	9.3	12.0	440,000	11.1	32.3	—	—	—	100,000 Christmas Is.	9.3	17.0	160,000	14.9	19.0	—	—	—	—	—	—	—	—	—	—	—	—
900,000	34.0	34.0	—	—	—	—	—	—	150,000	5.7	5.7	100,000	7.8	7.8	100,000	7.8	7.8	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2,400	800.0	80.0	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6,000	16.2	14.6	—	—	—	2,000	5.6	4.9	4,000	10.8	9.7	4,000	10.8	9.7	6,500	17.6	15.8	—	—	—	6,000	16.2	14.6	—	—	—
—	—	—	—	—	—	700	4.7	4.7	—	—	—	—	—	—	35	0.2	0.7	—	—	—	260	1.6	1.6	—	—	—
—	—	—	—	—	—	—	—	—	1,135	965.8	100	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	Some	1/	1/	500,000	500.0	46.0	70,000	70.0	5.7	40,000	40.0	3.3	150,000	150.0	44.3	10,000	10.0	0.9	—	—	—
—	—	—	—	—	—	5,500	22.0	30.5	17,000	46.0	66.7	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

JAPANESE REQUIREMENTS FOR, AND PRODUCTION OF FIBERS AND FOOD

(UNLESS OTHERWISE SPECIFIED THE FIGURES ARE IN METRIC TONS)

Commodity	General Appraisal of Japanese Position	Estimated Japanese Stocks on Hand Jan. 1, 1943	Estimated Total Japanese Requirements 1943	Estimated Total Production Available to Japanese 1943	Estimated Japanese Stocks on Hand Jan. 1, 1944	Estimated Production in Japan, 1943			Estimated Production in Korea, 1943			Estimated Production in Formosa, 1943			Estimated Production in Manchuria, 1943		
						Production Available to Japanese	Percent of Requirements	Production	Percent of Requirements	Production	Percent of Requirements	Production	Percent of Requirements	Production	Percent of Requirements	Production	Percent of Requirements
Raw Fibers & (metric tons)																	
Cotton	Very weak, but susceptible of expansion	132,000	217,000 ^{2/}	113,700	28,700	400	0.2	0.3	15,000	6.9	13.2	100	0.05	0.1	—	—	—
Hard cordage fibers	Very strong, but dependent on shipping. Surplus available for export	50,000	60,000	280,000	270,000 Potential	—	—	—	—	—	—	—	—	—	—	—	—
Jute	Very weak. Susceptible of some expansion	None	27,000	Less than 2,000 ^{3/}	None	1,200 ^{3/}	4.4	60.0	—	—	—	—	—	—	—	—	—
Kapok	Strong. Surplus available for export. Will substitute for cotton and wool	Ample	35,000	30,000	Ample	—	—	—	—	—	—	—	—	—	—	—	—
Silk	Surplus available for substitution for other fibers and for export	Ample	35,000 or less	41,000	Ample	35,000	100	85.4	—	—	—	—	—	—	—	—	—
Maple fiber and rayon	Somewhat inadequate supplies. Susceptible of limited expansion	10,000	200,000	200,000	10,000	200,000	100.0	100.0	—	—	—	—	—	—	—	—	—
Wool	Very weak. Kapok and other fibers will substitute	Very small	90,000	14,600	Virtually none	200	0.2	1.4	—	—	—	—	—	—	3,000	3.3	20.5
*																	
Foodstuffs & (metric tons)																	
Pots and oils (edible and inedible)	Large surplus available for export	Ample	205,000	1,353,000	Ample	89,500	43.7	6.6	132,000	64.4	9.8	—	—	—	147,500	71.9	10.9
Rice: available to Japan.....	Adequate at present but potentially vulnerable from shipping standpoint	2,194,000	10,676,000	11,261,000	2,779,000	9,067,000	84.9	80.5	146,000	1.4	1.3	585,000	5.5	5.2	—	—	—
Total export surplus.....			73,000	73,000		73,000			146,000			585,000			—	—	—
Soybeans	Probably adequate	Probably small	1,736,000	1,736,000	Probably small	376,000	21.7	21.7	Probably none for Japan	—	—	—	—	—	1,360,000	78.3	78.3
Sugar: available to Japan.....	Probably adequate	small	949,100	949,100	Small	136,100	14.3	14.3	Deficit area	—	—	755,300	79.6	79.6	Deficit area	—	—
Total export surplus.....						—			—			814,200			—	—	—
Wheat	Probably adequate	Unknown	1,460,000	1,965,000 ^{1/}	Unknown	1,465,000	100.3	74.6	Slight deficit area	—	—	—	—	—	Slight deficit area	—	—

^{1/} Inference is to requirements for and production available to Japan Proper only, unless otherwise specified.
^{2/} Including minimum requirements for exports to occupied areas.
^{3/} Computations based on the figure 2,000.
 Not included in total.
 Including supplies needed by Japanese armies.

ODSTUFFS AVAILABLE TO THE JAPANESE, BY PRODUCING REGIONS, 1943
 (REFER TO THE TOTAL JAPANESE WAR ECONOMY)

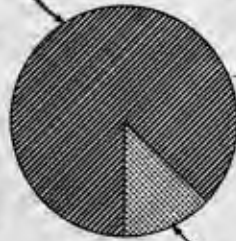
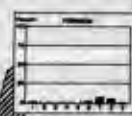
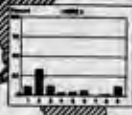
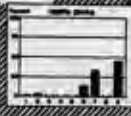
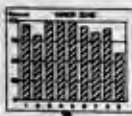
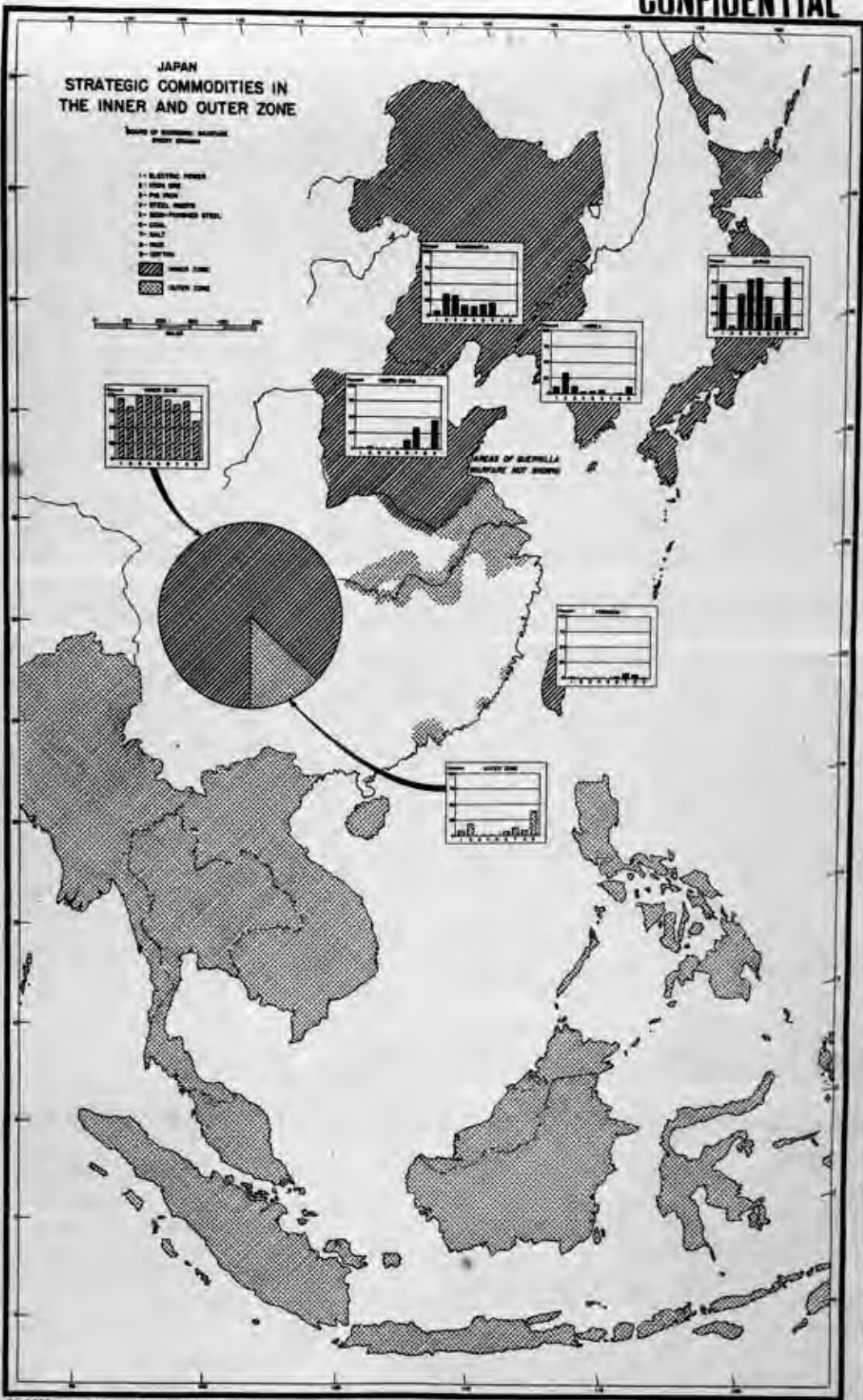
Estimated Production in Occupied China, 1943			Estimated Production in Japanese Mandated Is., 1943			Estimated Production in Philippine Is., 1943			Estimated Production in S.W.I., Burma, New Guinea, Timor, etc., 1943			Estimated Production in Indo-China, 1943			Estimated Production in Thailand, 1943			Estimated Production in Malaya, 1943			Estimated Production in Burma, 1943			Estimated Production from Other Sources Available to Japan, 1943		
Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production	Production Available to Japanese	Percent of Requirements	Percent of Production
80,000	36.9	70.4	--	--	--	--	--	--	1,600	0.7	1.6	--	--	--	1,100	0.5	1.0	--	--	--	15,400	7.1	13.6	--	--	--
--	--	--	--	--	--	180,000	300.0	64.3	100,000	166.7	16.7	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	Some	Some	Some	Some	Some	Some	--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	1,250	3.0	4.2	25,000	114.0	83.1	3,000	12.0	17.0	--	--	--	790	3.0	2.5	--	--	--	--	--	--
6,000	17.1	14.6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
11,400	12.7	78.1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
44,000	19.5	3.0	--	--	--	715,500	105.1	15.9	568,000	277.1	42.0	8,500	4.1	0.8	800	0.2	0.03	111,500	73.9	13.2	--	--	--	--	--	--
585,000	5.5	5.2	Deficit area	--	--	Deficit area	--	--	--	--	--	585,000	1.5	1.2	200,000	3.0	2.0	Deficit area	--	--	75,000	0.7	0.6	--	--	--
585,000	--	--	--	--	--	--	--	--	--	--	--	1,000,000	--	--	70,000	--	--	--	--	--	2,000,000	--	--	--	--	--
Some if needed	5/	5/	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Deficit area	--	--	57,700	6.1	6.1	--	--	--	--	--	--	--	--	--	Deficit area	--	--	Deficit area	--	--	--	--	--	--	--	--
--	--	--	57,700	--	--	200,000	--	--	25,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
500,000	34.2	25.4	--	--	--	Deficit area	--	--	--	--	--	--	--	--	--	--	--	Deficit area	--	--	--	--	--	--	--	--

JAPAN STRATEGIC COMMODITIES IN THE INNER AND OUTER ZONE

Source of commodity: SOURCE
Major source

- 1 - ELECTRIC POWER
- 2 - IRON ORE
- 3 - PIG IRON
- 4 - STEEL WASTE
- 5 - SEMI-FINISHED STEEL
- 6 - COAL
- 7 - SALT
- 8 - RICE
- 9 - COTTON

INNER ZONE
OUTER ZONE



AREAS OF SUPPLY
WHICH ARE NOT SHOWN

TELEGRAM SENT

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

May 31, 1943
5 p.m.

AMERICAN EMBASSY

CHUNKING

896

FOR ADLER FROM THE SECRETARY OF THE TREASURY
Your cable of May 15, TF-121.

Treasury has no objection to the Board's
converting US\$1 million into fap¹ with which to
purchase Chinese Government U. S. dollar backed
savings certificates with a maturity of one year.

HULL
(PL)

FD;PL:JD FE EA

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: May 31, 1943, 6 p.m.

NO.: 697

The following is a message from the Secretary of the Treasury for Adler, referring to the latter's cables TF-122 of May 22 and TF-120 of May 12.

You are requested to talk over with the Stabilization Board and Dr. Kung the following points:

One. The Treasury has been told that the Ministry of Finance's proposal, which grants favorable treatment to embassies and consulates in respect to converting foreign exchange into fapi for their expenditures, provides that a separate account with the Central Bank, and not the Stabilization Board of China, will be credited with the foreign exchange that is received from these foreign diplomatic and consular agencies. The Treasury does not understand why this special treatment is being given these foreign exchange receipts and is disturbed that such such foreign exchange receipts are not finally received by the Stabilization Board.

Two. The Treasury also feels that the Stabilization Board should remain the recipient of the foreign exchange receipts received from remittances to foreign missionary, philanthropic and educational organizations under any arrangement worked out in connection with the proposal which is being considered whereby their contributions for famine relief would be matched by the Chinese Government and they would be granted the official rate plus 50%. The Treasury cannot understand why the arrangements now in effect regarding the disposition of foreign exchange between the Stabilization Board and the Central Bank should be changed.

Three. The Treasury requests that it be informed with regards to the Stabilization Board's and Dr. Kung's ideas on the points mentioned above.

HULL
(FL)