

DIARY

Book 589

November 24 - 26, 1942

- A -

	Book	Page
Airplanes		
See Lend-Lease: United Kingdom		
Appointments and Resignations		
Snyder, Helen M. (Wife of FDR's chauffeur): Continued in present job at Miss Tully's request - 11/24/42..	589	29

- B -

Books in Wartime, Incorporated, Council of		
See Financing, Government: War Savings Bonds		

- C -

Contracts, Government		
See Inflation		
Correspondence		
Mrs. Forbush's mail report - 11/26/42.....		136
Council of Books in Wartime, Incorporated		
See Financing, Government: War Savings Bonds		

- D -

Deferments, Military		
Porcelli, Attilio F.: Deferment requested - 11/25/42...		94
a) Granted - 11/30/42: See Book 591, page 53		

- F -

Financing, Government		
War Savings Bonds:		
New York State Chairman Patterson and HMJr talk over points troubling Patterson - 11/24/42.....		8
a) Graves told of conversation - 11/25/42.....		43
State Administrators given pep talk based on HMJr's remarks made to War Savings Staff and Victory Fund Committees - 11/24/42.....		18
a) Miss Elliott's comments.....		22, 25
Council of Books in Wartime, Incorporated: Asked to assist in pushing War Bonds - 11/25/42.....		69
Streamers urging purchase of War Bonds prepared and distributed to retail stores, etc. - 11/25/42.....		71
Foreign Funds Control		
Spain: Treasury Department memorandum to FDR regarding United States currency held by Spanish Government - 11/24/42.....		36

- G -

	Book	Page
Government Contracts		
See Inflation		
Greece		
Report on financial situation of Government and Bank of Greece - 11/25/42.....	589	112

- I -

Inflation

Government Contracts: Byrnes indicates in memorandum that negotiation and renegotiation of Government contracts with regard to excess profits is concern of Price Administrator - 11/25/42.....		59
a) Treasury answer - 12/1/42: See Book 592, page 56		

Italy

Bank runs as result of RAF bombings reported in White memorandum - 11/25/42.....		133
---	--	-----

- L -

Lend-Lease

Report for week ending November 21, 1942 - 11/24/42....		32
United Kingdom: Aircraft despatched, week ending November 24, 1942 - British Air Commission report....		34

- M -

Military Reports

British operations - 11/24/42, etc.....		42,132, 154,155
"The War This Week, November 19-26, 1942" - Office of Strategic Services report.....		157
Morgenthau Family		
Thanksgiving greetings sent to FDR and Mrs. FDR - 11/26/42.....		135

- P -

Porcelli, Attilio F.

 See Deferments, Military

Price Control

 Government Contracts: See Inflation

- R -

	Book	Page
Revenue Revision		
Ruml Plan and methods of refuting it discussed by Treasury group - 11/25/42.....	589	51
Program for 1943 covering compulsory lending program, spendings tax on individuals, etc.: First draft sent to HMJr by Paul - 11/25/42.....		77
Gifts to philanthropic institutions: Mrs. FDR provided with income tax regulations governing - 11/25/42....		90
Ruml Plan		
See Revenue Revision		

- S -

Snyder, Helen M. (Wife of FDR's chauffeur)		
See Appointments and Resignations		
Spain		
See Foreign Funds Control		
Streamers		
See Financing, Government: War Savings Bonds		

- T -

Taxation		
See Revenue Revision		
Thanksgiving Day, 1942		
HMJr authorizes half-day closing for Treasury - 11/25/42..		93

- W -

War Production Board		
"War Progress": Return of back copies discussed in HMJr's letter - 11/25/42.....		97
War Savings Bonds		
See Financing, Government		

November 24, 1942
10:43 a.m.

HMJr:yourself a lot of time and me time if, when you write a letter for my signature, you'd show it to Kuhn first.

George
Buffington: Okay.

HMJr: Now those forty-eight letters to the Governors can't go out the way they're written, and Kuhn's got to rewrite them and then they've got to all be retyped.

B: Well, I'm sorry. I don't - I don't know how I missed that one.

HMJr: Well, we got - we got him here as coordinator and everything else, and - don't do it again, will you?

B: No - no, sir, I won't.

HMJr: Okay. Thank you.

B: Okay.

November 24, 1942
11:30 a.m.

Operator: There you are.

HMJr: Kuhn?

Ferdinand
Kuhn: Yes.

HMJr: It's set for ten-forty-five tomorrow morning
to have his picture taken in the Cabinet Room.

K: That's wonderful.

HMJr: Now I said I'd get Early over something, not more
than a hundred words, for the President to say,
after lunch.

K: For the President to see?

HMJr: See and say.

K: Oh, I see.

HMJr: I said we'd write out something for him.

K: All right, let's do it.

HMJr: And I - I want to get in some of that stuff
that's in paragraph two there.

K: I would also.

HMJr: See?

K: I would also.

HMJr: And he's just going to buy a bond, we're not
going to say how much.

K: That's all right.

HMJr: See?

K: That's all right.

HMJr: And I had something in mind, that this was the
first milestone on the fin.. - on the road to
financial victory or....

- 2 -

K: Uh huh.

HMJr:the fin.. - or the road, that is - on the road to victory.

K: I think I'll use Harold Thomas' help on that. I'll....

HMJr: Yes....

K:get him up here, and we'll....

HMJr:but I told what's-his-name that I'd get it over to him this afternoon, which means you've got to get it to me.

K: You will get it.

HMJr: At ten-forty-five tomorrow.

K: All right.

HMJr: Thanks.

K: What time do you want it? After lunch?

HMJr: After lunch.

K: All right.

HMJr: After lunch.

K: Okay.

HMJr: Thank you.

TREASURY DEPARTMENT

4

INTER OFFICE COMMUNICATION

DATE

November 24, 1942

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr.

Early

The original has gone to Steve Early for the President, but there will be another original for you the first thing in the morning.

Secretary Morgenthau: Mr. President, you know that we are launching a Victory Loan drive to raise \$9,000,000,000 in December. That's the biggest amount of money ever raised by any government in such a short time. It would be most helpful if you would launch the Victory Loan for us and buy the first of the new bonds, the new Victory two-and-one-halFs, from me?

The President: I'd like to. Is this the drive you've been telling me about, Henry?

Secretary Morgenthau: Yes, this is the Victory Loan drive. We've got almost 50,000 professional salesmen, men from the securities and banking and insurance fields, who are going to sell these bonds for us -- and most of them are going to do it as a patriotic service without a penny of pay. These men are organized in the Victory Fund Committees in all parts of the country. They've been trained all their lives to reach the people who have accumulated savings and idle funds, and those are the people we want to reach in this Victory Loan drive. These bonds, at \$500 and up, are the ideal investment for them.

The President: Well, I'm delighted to hear of what the Victory Fund Committees are doing, and I'll be glad to buy the first bond. Steve, where's my check?

(President buys bond)

The President: Every day I get inspiring reports from our commanders in the field -- in Africa, in the Solomons, and in battle stations all over the world. As Commander in Chief, I'm proud of what our fighting men are doing. They are giving us on the home front a high standard to live up to.

It is one of our jobs here at home to provide the dollars -- the untold billions of dollars -- that are needed to help win this war. I know that millions of you -- more than 23 millions -- are already buying War Bonds out of your regular pay every pay day. But there are other millions of private investors, corporations, custodians of trust funds, and estates, who have idle money in the bank. That money has got to go to work for our country. We have got to make our dollars "fighting dollars" by investing them in Government bonds.

The new Victory Loan gives us a new chance to make those dollars fight. This is no time for men or money to be idle. Let's put our money to work by buying the new bonds, the Victory two-and-one-halves -- for Victory.

7 ✓
November 24, 1942
11:37 a.m.

HMJr: Yeah.

Daniel
Bell: I don't think that ought to go in that way.

HMJr: Why....

B: I mean I don't think it will be understood. If you want to say - don't have anything in your radio and publicity about Series E Bond, that's one thing, but just to say this it's got to make unmistakably clear the distinction between 'em, that's - to me if I got that out in the sticks, I'd say, "Well, something's got to go in on War Savings Bonds."

HMJr: Well, I don't....

B: Then do we have to have anything in here about the Office of War Information? I think that confuses them.

HMJr: Is Buffington in there with you?

B: Hello?

HMJr: Is he in there with you now?

B: Yeah. I'm just trying to get the thing ready to go out, and....

HMJr: Well, both....

B:I understood that you were strong for two.

HMJr: Yeah. Both of you can come in. I'm....

B: All right.

November 24, 1942
5:08 p.m.

Col. Richard
Patterson: Hello.

HMJr: Dick?

P: Hello, Henry.

HMJr: Can you hear me?

P: Well, I - I can - I think so, yes.

HMJr: If not I'll call you on that direct wire.
Hello?

P: Yes, Henry.

HMJr: What - what is your number there.

P: My number is Circle 6-3124.

HMJr: Circle 6-3124.

P: Circle 6-3124.

HMJr: ..31 - I'll call you on that direct.

P: All right, Henry.

HMJr: I can't hear you.

P: I'll be right here.

HMJr: Thank you.

5:12 p.m.

HMJr: Hello.

Operator: Colonel Patterson.

HMJr: Hello, Dick?

- 2 -

Col. Richard
Patterson:

Yes - yeah, Henry.

HMJr:

Now, Dick, supposing you tell me just what your worries are. I'd like to know personally. Hello?

P:

Yes, Henry, I'm listening.

HMJr:

As far as the War Bonds, well, what's bothering you. You might as well tell me.

P:

Well, I don't think that anything's bothering me.

HMJr:

Well, I - I thought that - that you told me the other night that you had different worries.

P:

Oh, I have none. I think we're on the road to putting this thing over in a big way, but there are a good many of my people are disturbed.

HMJr:

Well, what are they disturbed about?

P:

Well, they're disturbed about - one thing, they - they - some of them feel that if the Victory Fund Committee, when they're successful in putting over this issue as they will be, that they might come forward to you and say, "Now the War Savings Staff is a mental hazard. Will you give us the E Bonds?"

HMJr:

Yes.

P:

These are hypothetical things.

HMJr:

All right. Well, now let me answer one by one, see?

P:

Yes.

HMJr:

Hello?

P:

Yes.

- 3 -

HMJr: As to that - there's no more chance of that than I'm going to jump off the Brooklyn Bridge tonight.

P: (Laughs)

HMJr: In the first place, I can't get to the bridge. In the second place, I don't want to jump.

P: (Laughs) All right.

HMJr: Now let me go - go back a little bit. When I first started in here....

P: Yeah.

HMJr:the first suggestion was made that we organize this whole thing the way they did during the Liberty Loan....

P: Yes.

HMJr:and I turned it down....

P: Yes.

HMJr:and I turned it down after very careful study.

P: Yes.

HMJr: Now the War Bond group are set up to do a job....

P: Yes.

HMJr:and that is to deal with the masses.

P: Yeah.

HMJr: They're doing it extremely well.

P: Right.

HMJr: We picked people who we think best qualified to deal with the masses....

P: Yes.

- 4 -

HMJr:and the other group are picked to sell an entirely different clientele.

P: That's right.

HMJr: And it's just the way you've got one kind of a salesman to sell a Cadillac and another kind of salesman to sell a Chevrolet.

P: That's right.

HMJr: And a Chevrolet salesman selling a group wouldn't do an awfully good job at going and ringing a doorbell at Park Avenue and selling somebody there....

P: That's right, and that's quite clear.

HMJr:for five thousand dollars - because this thing is - I'm settling each thing myself.

P: Yes.

HMJr: I'm wholly responsible and take the responsibility.

P: Yes.

HMJr: And there's no more chance of the Victory Fund Committee taking over the E Bonds than there is, as I say, my jumping over Brooklyn Bridge.

P: All right, now....

HMJr: Now that's number one.

P: Yes. All right, now let me supplement that by saying that I understand that clearly and I believe it, and I believe that doing away with the F and G Bonds is a good thing because it gives us the one definite, anti-inflationary, people's bond, which is the E Bond....

HMJr: Yes.

P:and we ought to push that up beyond the thirty million participants. We ought to get up to thirty-five or forty million....

HMJr: Yeah.

- 5 -

P:and I believe in it thoroughly, but a great many of my people have felt -- a great many of them -- that the Victory Fund Committee, who only had a paper organization, would come in and take this thing off their - would take it away from them, and as a result we had a good many resignations.

HMJr: Yeah.

P: And - but we're cleaning those up as fast as we can.

HMJr: Well, you can - all I can say is you can say you talked to Morgenthau on this thing and "he's personally given me his assurance." Now they got to believe me.

P: Oh, they will, Henry.

HMJr: Now that's number one.

P: But we don't - we don't have a chance to talk to you very much, you know.

HMJr: Well, I'm call.. - I'm calling you up because I thought you were going to come down.

P: I wanted to, but we were told we couldn't.

HMJr: Well....

P: We were told it would be inadvisable because you're going - going away on Thanksgiving, and I didn't want to disturb you, and I sent you a teletype yesterday....

HMJr: Yes.

P:asking if I could come down any day next week, Tuesday, Wednesday, Thursday, or Friday, and lunch with you with two or three of my colleagues.

HMJr: Well, I - I'll tell you now. I've asked Admiral King Wednesday or Thursday of next week....

P: Yes.

- 6 -

HMJr:and whichever day he doesn't take, you and your colleagues are invited to lunch with me in the Treasury.

P: Oh, that's fine. You see, Henry, I don't need to go down.

HMJr: No.

P: I merely want to bring two or three of my men.

HMJr: Well, we....

P: They haven't - they've never had an opportunity to talk to you....

HMJr: Well - well....

P:on our work.

HMJr:I don't know which day he took, but whichever - I gave him Wednesday or Thursday. Whichever day he doesn't pick is yours.

P: Thank you. Well, then we can have either Wednesday or Thursday next week....

HMJr: Right.

P:and your secretary will advise me which day.

HMJr: Right.

P: As soon as you know from Admiral King.

HMJr: Yeah.

P: All right.

HMJr: Now what else?

P: Well, the - the next thing was - I think I've covered the main thing -- the - the misunderstanding in the War Savings Staff of the Victory Fund Committee coming in when we don't believe in them. That is, men of my caliber don't believe -- and I'm on a private wire and I won't hesitate to talk -- we don't think the

(cont.)

- 7 -

P: bankers can do the good job we can do. I don't
(cont.) trust two-thirds of these bankers, Henry. I
think they're just race-track gamblers.

HMJr: Yes.

P: Now that's a hell of a way to talk....

HMJr: Yeah.

P:but they're after a lot of publicity; they'll
want you to pay them for their work; and they're
patriotic when it - oh, well, I don't want to
say when they have to be. I don't mean that neces-
sarily.

HMJr: Well....

P: That may be cruel with them, but....

HMJr: I - I - (laughs) see, in my position, where I've
never been connected with them in my whole life
and never will be, I can say that in this instance
I've got confidence in them.

P: Well, that's enough for - that's enough for us.

HMJr: And there's been no indication that they're trying
to inch in on me.

P: Well....

HMJr: I mean not this crowd that are doing the selling.

P: There's no indication, but you give them an inch
and they'll take a mile.

HMJr: Well, again you'll have to trust me that after
ten years in the Treasury that I'll - I know how
to take care of the people's interests.

P: (Laughs) All right, Henry.

HMJr: I mean, well, that's what it gets down to.

P: Sure, it does.

HMJr: And....

- 8 -

P: Sure it does. If you will just back us and on this baby which you conceived nearly a year-and-a-half ago, just back us to the limit on pushing over this people's bond, the greatest bond the country has ever had....

HMJr: Yeah, well....

P:we will go to town in a magnificent way.

HMJr: Well, I'll go just as far and just as long until the Congress pulls me off.

P: Well, hell, you can't stop that.

HMJr: Did you get a telegram?

P: No.

HMJr: Hasn't it come yet?

P: No, I've - not yet.

HMJr: Well....

P: Don't worry about it.

HMJr: Well, I told them to send it out Sunday night, and then they were going to send it out Monday, and then they were going to send it out today.

P: Well, now they told me they'd bring it tomorrow. Both Graves and Gamble are going to spend the day with us tomorrow.

HMJr: Yeah.

P: Here.

HMJr: I know.

P: And they'll have it. Don't worry about it.

HMJr: Well, I thought if you'd talk to me, I can take the bumps better than they can.

- 9 -

P: (Laughs) Well, Henry, I'm sorry to trouble you, there's one thing that is minor but disturbs me. Another thing, I constantly and daily see in the press that the companies are receiving the E pennant flag.

HMJr: Yes.

P: It seems to me the T - Treasury flag - ninety per cent - ten per cent, is just as important as the E flag.

HMJr: Yeah.

P: And I'd like to see that pushed.

HMJr: Well, there's no reason why it shouldn't be.

P: Because it's a great flag.

HMJr: Well, haven't you got the authority to - to....

P: Oh, yes, we're doing it.

HMJr: Well....

P: We're doing it the best we can.

HMJr: More power to you.

P: We're doing it the best we can because I believe in it. Now, for instance, the other day I went down and gave - presented the - the T - Treasury flag - to the Metropolitan Life Insurance Company.

HMJr: Yeah.

P: And it was a magnificent celebration....

HMJr: Yeah.

P:magnificent, and I want to see it done all over the country.

HMJr: Well....

- 10 -

P: I want to put the T flag right out in front....

HMJr: Well, so do I.

P:so that people will pray to God that they've got it.

HMJr: Yeah.

P: It's a great flag.

HMJr: Well, I agree with you.

P: And I'm so proud of this business that it's just funny, and I don't want anything to cripple it.

HMJr: Yeah. Well, I can assure you up to the time that Congress stops me or passes some legislation which crosses me up - and I told them to send that telegram. Why the hell it hasn't gone I don't know.

P: Now they're going to bring it tomorrow. They told me they'd bring it tomorrow.

HMJr: Well....

P: That'll be all right.

HMJr: Yeah, well, I don't know why they didn't send it.

P: No, don't - it's all right now, Henry. I'll get it tomorrow.

HMJr: Yeah.

P: And then you'll let me know by teletype....

HMJr: Yeah.

P:about Wednesday or Thursday of next week.

HMJr: That's right.

P: All right.

HMJr: Okay.

P: Thanks, Henry. Goodbye.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

The following DAY LETTER to go to the attached list of State Administrators and/or Chairmen.)

FROM	Office of the Secretary	18
BUREAU		
CHG. APPROPRIATION	Expenses of Loans - War Savings Staff.	

U. S. GOVERNMENT PRINTING OFFICE 10-1733

November 24, 1942.

It may be helpful if I send you some remarks I made last Friday at a meeting of Treasury people in charge of the War Savings Staff and the Victory Fund Committees. Because it makes clear the distinction between the War Savings campaign and the new Victory Loan to be launched next week, I would appreciate it if you would make this material available to your staff and to all your county chairmen. This is what I said. Quote: The War Savings Staff has been organized by States to reach the millions of income-earners of America. The thing we have been trying to do and are doing with increasing success each month is to get the men and women who are working for a livelihood to set aside at least 10 percent each week from their pay on a voluntary basis. I think it is magnificent that the War Savings Staff have reached a figure of over 23 million persons with an average deduction of 8 percent. I want very much that you keep on. I want you to keep on just as long as the Congress will let us. As for the Victory Fund Committees, I do not expect them to sell to the working man or the working woman, or to others having small incomes. I do not expect them to work with ^{members of} the Unions. I do however expect them to approach the people who have saved considerable sums of money, and to ask them to invest their accumulated savings in our Treasury securities. That is as contrasted with what you people are doing in going to working people and

asking them to lend the Government money out of current earnings. The Victory two-and-a-half's are not printed in any denomination smaller than \$500. That is concrete evidence that we do not expect to go to the man of small income with this Victory Loan program. I do not expect the Victory Fund Committee to approach the same people that you of the War Savings Staff approach. The Victory Fund Committee is designed to reach people who have accumulated savings and idle funds. Unquote. This is the gist of what I said last Friday. In sending it to you now I want to express again my deep and heartfelt satisfaction with what you have done up to now. Your work in coming months, especially on the payroll savings plan, will continue to be a vitally important part of our war financing. This is also true of your work among farmers, women, schools, and the other groups you have been reaching through the War Savings program. Your goal of 30 million workers investing at least 10 percent represents in itself a tremendous assignment. I have every confidence that you will meet that assignment with the same enthusiasm and effectiveness that you have brought to all your work since War Bonds first went on sale.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

11/24/42

2

Miss Finucane:

Could you let me know whether this has been done. If so, we would like to have a copy for our files. Thanks.

Mrs. McHugh

November 21, 1942

Harold Graves
Secretary Morgenthau

Would you please, personally, with whatever assistance you'll need, go over the stenographic report of the remarks that I made to the War Bonds staff yesterday morning. I'd like to have it digested down to the more pertinent facts and have it go out as a week-end letter to the forty-eight state administrators so that they will have it Monday morning. I should think that between you and Ted Gamble and whomever you will need in addition that you could get this out. I'd very much like to have it, and sign my name to it. Then I would suggest that you add a word yourself, and ask the forty-eight state administrators to circulate it amongst their staff, and it wouldn't do any harm to give a copy of it to all of the nine hundred employees who are working for War Bonds, both in Washington and in the field.

Please see that this goes out so it's on the desk of everyone of the forty-eight administrators Monday morning.

November 21, 1942

Harold Graves

Secretary Morgenthau

Would you please, personally, with whatever assistance you'll need, go over the stenographic report of the remarks that I made to the War Bonds staff yesterday morning. I'd like to have it digested down to the more pertinent facts and have it go out as a week-end letter to the forty-eight state administrators so that they will have it Monday morning. I should think that between you and Ted Gamble and whomever you will need in addition that you could get this out. I'd very much like to have it, and sign my name to it. Then I would suggest that you add a word yourself, and ask the forty-eight state administrators to circulate it amongst their staff, and it wouldn't do any harm to give a copy of it to all of the nine hundred employees who are working for War Bonds, both in Washington and in the field.

Please see that this goes out so it's on the desk of everyone of the forty-eight administrators Monday morning.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 24, 1942

TO Secretary Morgenthau

FROM Miss Elliott

This message makes perfectly clear the function of the state administrators and the War Savings Staff, but it does not give them any assurance that an organization which duplicates their committee system will not be set up in the states.

If the trend continues as is indicated by the Pittsburgh news item and the Greenwich, Connecticut, situation, I feel sure that unfortunate confusion will be created in the states. I believe this could be easily averted by adding a statement by the Secretary of the Treasury in both of these telegrams concerning the proposed administrative organization for the Victory Fund Committee.

Expenses of Loans - War
Savings Staff.

(The following DAY LETTER to go to the
attached list of State Administrators
and/or Chairmen.)

November 24, 1942.

It may be helpful if I send you some remarks I made last Friday at a meeting of Treasury people in charge of the War Savings Staff and the Victory Fund Committees. Because it makes clear the distinction between the War Savings campaign and the new Victory Loan to be launched next week, I would appreciate it if you would make this material available to your staff and to all your county chairmen. This is what I said. Quote: The War Savings Staff has been organized by States to reach the millions of income-earners of America. The thing we have been trying to do and are doing with increasing success each month is to get the men and women who are working for a livelihood to set aside at least 10 percent each week from their pay on a voluntary basis. I think it is magnificent that the War Savings Staff have reached a figure of over 23 million persons with an average deduction of 8 percent. I want very much that you keep on. I want you to keep on just as long as the Congress will let us. As for the Victory Fund Committees, I do not expect them to sell to the working man or the working woman, or to others having small incomes. I do not expect them to work with ^{members of} the Unions. I do however expect them to approach the people who have saved considerable sums of money, and to ask them to invest their accumulated savings in our Treasury securities. That is as contrasted with what you people are doing in going to working people and

asking them to lend the Government money out of current earnings. The Victory two-and-a-half's are not printed in any denomination smaller than \$500. That is concrete evidence that we do not expect to go to the man of small income with this Victory Loan program. I do not expect the Victory Fund Committee to approach the same people that you of the War Savings Staff approach. The Victory Fund Committee is designed to reach people who have accumulated savings and idle funds. Unquote. This is the gist of what I said last Friday. In sending it to you now I want to express again my deep and heartfelt satisfaction with what you have done up to now. Your work in coming months, especially on the payroll savings plan, will continue to be a vitally important part of our war financing. This is also true of your work among farmers, women, schools, and the other groups you have been reaching through the War Savings program. Your goal of 30 million workers investing at least 10 percent represents in itself a tremendous assignment. I have every confidence that you will meet that assignment with the same enthusiasm and effectiveness that you have brought to all your work since War Bonds first went on sale.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT

25

INTER OFFICE COMMUNICATION

DATE

November 24, 1942

TO Secretary Morgenthau

FROM Miss Elliott

This telegram does not cover the question of administrative organization. The attached Pittsburgh news item indicates that the Victory Fund Committees plan to set up administrative and promotion committees, including women's committees. In fact, in one place, the local chairman has already called the chairman of our committee and told her that the War Savings Staff committees will be abolished, and that she should come into their organization and take the chairmanship of their women's committee.

I have every reason to believe that this confusion will spread over the country, and I think it is imperative for this to be stopped before it creates a real problem.

It was my understanding that the promotion people and the salesmen for these new securities were to be bond salesmen and financiers in the existing financial agencies concerned with these securities. If competing committees are set up in states and cities, the resulting confusion would, in my opinion, be detrimental to both interests.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM George Buffington
 BUREAU Office of the Secretary
 CHG. APPROPRIATION Expenses of Loans A&E

U. S. GOVERNMENT PRINTING OFFICE 10-1728

November 24, 1942.

The following telegram is to be sent to the names on the attached list.

Original to Executive Managers, and
Copy to Chairmen, Victory Fund Committee.

Please make the following bulletin available immediately to your publicity representatives and regional chairmen:

1. The Treasury's financing program to be launched November 30 will be referred to as Victory Fund Drive to sell Victory Loan. Specifically, the principal security will be referred to as Victory two and one-half's.
2. It is of the utmost importance that in all your newspaper and radio publicity you stress the fact that Victory Loan securities are designed for investment out of accumulated savings and idle funds. In the same way the War Savings Staff has been asked to stress the fact that Series E War Bonds are designed for regular purchase out of current earnings. This is a specific request from Secretary Morgenthau.
3. We are airmailing for your guidance five-minute pattern speech covering essential points of drive. This may be used and adapted locally for radio announcements and weekly luncheons, such as Kiwanis, Rotary, and similar organizations.
4. It is suggested you or your regional managers contact all financial institutions having radio programs to urge use of such five-minute speech as material for local adaptation. A list of financial institutions sponsoring radio programs is being sent to you. Local spot announcements also are being prepared and will be sent you this week for use in enlisting the aid of local radio stations.
5. It is suggested you obtain statements from important people in your district, calling attention to drive and urging purchase of bonds. These statements to be released from time to time to local press and copies sent here for possible use in other districts. In this connection statements from Senators and Congressmen will be especially helpful.
6. Secretary will ask your chairman to call together financial writers in your district to give them details of Treasury program and answer any questions.
7. It is contemplated to release the first national figures on the progress of the drive in morning papers of Monday, December 7. Subsequent releases will be made at intervals thereafter.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____

BUREAU _____

CHG. APPROPRIATION _____

U. S. GOVERNMENT PRINTING OFFICE 10-1728

page 2.

8. Mats for one advertisement are being sent to 15,000 banks under sponsorship of American Bankers Association. It is suggested that publicity director and executive and regional managers contact banks to work out local sponsorship for advertising.
9. It is essential that local publicity be obtained in as many individual cities and towns as possible.
10. We are sending you airmail today letter from Secretary addressed to Salesmen of the Victory Fund Committee. We are relying on you to reproduce this letter and distribute it to every member of the Victory Fund organization in your district. If you are preparing a sales manual, suggest you include Secretary's letter in it.
11. Contact for your publicity men will be George Wanders here at the Treasury.

George Buffington,
Assistant to the Secretary.

The Secretary²⁸

TREASURY BILLS

	<u>Nov. 23</u>	<u>Nov. 19</u>	<u>Nov. 12</u>	<u>Nov. 4</u>
Amount offered	\$ 500M	\$ 500M	\$ 500M	\$ 500M
Bids tendered ...✓.	1,149	1,157	1,013	906
Low rate297%	.297%	.300%	.309%
High rate372	.372	.376	.376
Average rate✓.	.370	.371	.373	.373
Amount in New York.	\$ 214M	\$168M	\$ 252M	\$328M
Amount in Chicago..	124	142	87	56
Amount in San Fran- cisco	31	40	44	19
Amount in balance of country ...	131	150	117	97

new B

November 24, 1942.

November 24, 1942

Memorandum for Miss Tully:

Referring to your telephone call and memorandum of today, arrangements have been made to continue Mrs. Helen M. Snyder at the Treasury in the Office of the Treasurer of the United States where she is now employed.

(Signed) H. Morgenthau, Jr.

Miss Grace G. Tully,
The White House.

Amplified:

P. S. How is this for service? I like to keep up to the Grace Tully standards.

WNT
WNT:cf

Del. by SS Agent 5:45 11/24/42
File to NMC

THE WHITE HOUSE
WASHINGTON

November 24, 1942

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Following up our telephone conversation, I wonder if it would be possible to continue Mrs. Helen M. Snyder (Mrs. Montford Snyder, wife of the President's chauffeur) at the Treasury in her present department?

I understand that she is working in the Securities Division and that it would be very difficult for her to get to Gallinger, as she lives in Virginia and it would entail three or four transfers in trying to make connections which, she figures, would take about two hours morning and evening.

Anything you can do to help, I know will be appreciated by Monty.

With many thanks.

Grace G. Tully
GRACE G. TULLY
Private Secretary

BRITISH EMBASSY,
WASHINGTON, D. C.

24th November, 1942.

Dear Sir,

Would you please let the Secretary to the Treasury know that in Lord Halifax's absence for a few days from Washington, I have opened the Secretary's letter to Lord Halifax of the 23rd November.

The letter and package are being forwarded to London for Mr. Winston Churchill by the first possible bag, and the Secretary's letter is being forwarded to Lord Halifax, telling him that this has been done.

Yours very faithfully,

Margaret E. Randall

Personal Secretary.

The Private Secretary,
to the Hon. Henry Morgenthau, Jr.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

November 24, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended November 21, 1942.

Mr. Harry Hopkins, Chairman of the President's Soviet Protocol Committee, has called a meeting at 11:15 tomorrow morning to discuss the present status of the Lend-Lease program for the U.S.S.R. I intend to recommend to Mr. Hopkins that, inasmuch as we have an accumulation of approximately 576,837 tons awaiting shipment and the current rate of production is in excess of scheduled shipping facilities, immediate steps should be taken to either avoid the further dismantling of existing industrial plants for the Soviet Government or to determine priorities of shipment on an over-all basis. If this is not done, we will find ourselves very soon in the position of having dismantled industrial plants, specifically, a tire manufacturing plant, an oil refinery, and possibly other facilities which will be shipped to warehouses awaiting available ships and, perhaps, immobilized.

We have an immediate situation in that regard with respect to the Ford tire plant on which the dismantling is being rushed at the request of Lend-Lease, and from present indications the equipment will be moved to a warehouse on the West Coast for shipment at some future date.

I will advise you as to the outcome of the meeting tomorrow morning with Mr. Hopkins, and particularly with reference to his policy concerning existing industrial plants for U.S.S.R.



Cliff Mack
Clifford E. Mack
Director of Procurement

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF NOVEMBER 21, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U.K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2434.3 (2328.9)	\$1243.7 (1237.2)	\$774.8 (758.5)	\$58.2 (56.9)	\$3.7 (3.7)	\$353.9 (272.6)
Purchase Authoriza- tions (Requisitions)	\$1849.0 (1825.1)	\$1083.4 (1076.4)	\$704.2 (687.6)	\$41.3 (40.1)	- -	\$ 20.1 (21.0)
Requisitions Cleared for Purchase	\$1772.2 (1759.1)	\$1070.9 (1069.4)	\$640.3 (629.3)	\$41.2 (40.0)	- -	\$ 19.8 (20.4)
Obligations (Pur- chases)	\$1715.2 (1685.1)	\$1036.7 (1023.2)	\$618.7 (602.3)	\$41.0 (39.8)	\$2.9 (2.8)	\$ 15.9 (17.0)
Deliveries to Foreign Governments at U. S. Ports	\$ 739.0 (719.0)	\$ 586.7 (573.1)	\$126.9 (120.8)	\$20.2 (20.2)	- -	\$ 5.2 (4.9)

* Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of November 14, 1942.

**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. 61 - Aircraft Despatched
- for week ended November 24, 1942.

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

November 28, 1942.

MOST SECRETSTATEMENT NO. 61AIRCRAFT DESPATCHED FROM THE UNITED STATESWEEK ENDED NOVEMBER 24th, 1942

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DEL'D FOR USE IN CAN
<u>WING</u> Stress II	U.K.	Canada enroute		2	
<u>WINTER</u> Bermuda	U.K.	U.K.	19		
<u>CONSOLIDATED</u> Palina IB Operator II	U.K. U.K.	Bermuda enroute Canada enroute		4 1	
<u>WELLS</u> Ston IIIA	U.K.	Canada enroute		18	
<u>WIRCHILD</u> Snell PT26	Canada	Canada			15
<u>WENN MARTIN</u> Ultimore IIIA Crauder	Middle East Middle East	Middle East Middle East		29 1	
<u>WICKHEED</u> Edson VI Edson VI Edson III A Santura	U.K. S. Africa U.K. S. Africa	Canada enroute South Africa Canada enroute South Africa		21 2 1 2	
<u>WORTH AMERICA</u> Mitchell I Mitchell II Harvard Mustang	Bahamas Canada India U.K.	Nassau Canada Bombay U.K.		1 10 13	1
<u>NORTHROP</u> Vengeance	India	Bombay		6	
<u>VULCAN</u> Vengeance	India	Bombay		10	

Movements Division

TOTAL

58

82

16

British Air Commission,
27th November, 1942.58
82
16
156

Regraded Unclassified

NOV 24 1942

MEMORANDUM FOR THE PRESIDENT

You forwarded to me a copy of Ambassador Hayes' cable regarding United States currency held by the Spanish Government and inquired whether the matter had been referred to me.

This matter has not been referred to us by the State Department as yet. If the State Department consults us, I intend to reply along the lines indicated in the attached draft, unless you suggest otherwise.

As you know, the Treasury instituted control of the import of United States currency from Europe in order to deny the Axis the benefit of the currency they looted from the occupied countries. This particular currency has been the subject of negotiations since December 8, 1941. We know that the Spanish Institute has received United States currency from Germany in payment for strategic exports to Germany.

From the economic warfare point of view this Government should not accept the currency from the Spanish Government.

As you will note from the attached draft, we do not propose to accept this currency unless we are requested to do so for political reasons.

(Signed) H. Morgenthau, Jr.

*By special messenger
5 pm 11-24-42
E.W.*

In reply please
refer to: 28074

My dear Mr. Secretary:

Reference is made to a cable from the American Embassy in Madrid, No. 1814, of November 17, 1942, concerning this Department's position with respect to certain United States currency held by the Spanish Exchange Institute, which was referred to the Treasury by your Department.

The Embassy's cable has been carefully considered by this Department in the light of our program designed to prevent the Axis from benefiting from United States currency looted from occupied Europe. Experience has demonstrated that the effectiveness of this program depends in large part upon the impact of our policy on the markets in the neutral European countries in which looted currency is known to be exchanged by the Axis. It has been announced repeatedly that United States currency of European origin is presumed by the Treasury to bear Axis taint. We believe that this position is the only one which can effectively discourage the purchase of looted currency on the European currency markets. To permit the Spanish Exchange Institute to realize upon a substantial amount of dollar currency would open the door to so many other exceptions to the announced policy of this Department that the effectiveness of our currency program might be seriously impaired by such action.

From the point of view of the effectiveness of this Government's economic warfare activities, it would, in the opinion of this Department, be highly undesirable to give the Spanish Exchange Institute dollar credits for the dollar currency presently in its possession.

- 2 -

Accordingly, this Department is not prepared to alter its previous decision with respect to this matter unless, notwithstanding the economic warfare considerations involved, and for political reasons, your Department requests this Department to approve the granting of dollar credits to the Spanish Exchange Institute in exchange for the dollar currency in its possession.

Sincerely yours,

Secretary of the Treasury.

The Honorable

The Secretary of State.

MLH:AFL/ma - 11/23/42

THE WHITE HOUSE

WASHINGTON

November 21, 1942

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Has this been referred to
you or not?

Please return for my files.

F. D. R.

Enclosures

COPY

REA

This telegram must be closely paraphrased before being communicated to anyone (SC)

Madrid

Dated November 17, 1942

Rec'd 4:34 p.m. 18th

Secretary of State,

Washington,

18th, November 17, 3 p.m. (SECTION ONE)

The intention expressed in the Department's No. 1161, November 4, 6 p.m. to consider immediately the enlargement of the scope of our present economic arrangements with Spain prompts me to urge reconsideration of the decision of the Treasury Department concerning blocked dollar currency held by Spain.

Our attitude on this matter has caused special resentment among cabinet members who explain that a large part of this currency was acquired by the Exchange Institute from the thousands of refugees who passed through Spain when France fell many of whom were Americans. Spain facilitated the passage of these refugees and made available transportation, housing and food for which it accepted payment in dollars chiefly in currency the remainder was acquired from travellers in payment of ships services and other legitimate sources. The Ministry of Industry and Commerce has recently voiced this resentment very vigorously.

HAYES

EMB

COPY

JG
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (SC)

Madrid

Dated November 17, 1942

Rec'd 7:50 p.m. 18th

Secretary of State

Washington.

18th, November 17, 3 p.m. (SECTION TWO)

He points out that as only approximately two million dollars were accumulated by Spain since March 1939 (of which about one million one hundred thousand dollars are still held) it should be clear to our authorities that Spain has not been a channel for the disposition of currency looted by the Axis and that we arbitrarily ruled Spain guilty of such practices while disregarding its offer to permit us to satisfy any doubts we might have through inspection of the transactions by which the currency was acquired.

The repatriation of this currency in my opinion would pay dividends in good will many times more valuable to us now than the small amount involved and I earnestly urge that the question be reconsidered, if necessary by Secretary Morgenthau personally.

We could obtain a secondary benefit in the way of propaganda by utilizing the currency for the acquisition of motion pictures as outlined in my number 1675, November 3, 10 p.m.

(END OF MESSAGE)

HAYES

HTM

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 499

Information received up to 7 A.M., 24th November, 1942.

1. NAVAL

One of H.M. Submarines torpedoed a ship off BIZERTA. Details unknown. When entering BIZERTA Harbour yesterday two enemy ships were blown up, possibly by mines laid by our aircraft. During an attack by torpedo aircraft on an eastbound convoy west of ALGIERS last night, one ship was sunk and one damaged but is proceeding.

2. MILITARY

LIBYA. 22nd. Indications that the enemy may have begun thinning out in the JEDABYA Area but in the evening a force including 11 tanks with a strong anti-tank screen was still holding a position some miles to the North. One of our columns has advanced southeast of JEDABYA. Transport aircraft took supplies to our forward troops near METELAI.

TUNISIA. A small enemy attack on our positions at DJABIOD was repulsed and 40 prisoners taken. Our patrols have passed GAFSA and are reported moving southeast toward GABES. Evidence of continued enemy reinforcement.

RUSSIA. The Russians have extended their break-through in the MATSKAYA Area held by the Rumanian Army. South of STALINGRAD the Russians have made a second major break-through in the direction of KALACH.

3. AIR OPERATIONS

WESTERN FRONT. 22nd/23rd. STUTTGART. 120 tons of U.S. and 213 of incendiaries were dropped. Visibility mainly good with slight ground haze. Most crews could pick out landmarks by aid of flares well placed by Pathfinder Force. Attack completed in 50 minutes. Large fires took a good hold in centre of the town. Searchlights and heavy anti-aircraft only moderate. Attack generally successful.

50 U.S. Fortresses and 8 Liberators bombed dock installations at ST. NAZAIRE. Many bursts seen in target area. A direct hit or near miss on a tanker. Four aircraft missing and one crashed. Enemy casualties reported 16, 3, 6. Over the BAY OF BISCAY a Wellington intercepted 4 JU 88's destroying 1 and damaging 2. 23rd/24th. 35 aircraft were sent sea mining.

FRENCH NORTH AFRICA. 21st. FOML. Airfield five bombed. 10 Spitfires on the ground destroyed or damaged. 3 JU 88's destroyed. 22nd/23rd. Wellingtons dropped 16 tons of bombs on BIZERTA Docks.

BURMA. 22nd/23rd. A total of 19 Blenheims successfully bombed MEYAB and MAGEE airfields.

November 25, 1942
8:59 a.m.

Harold Graves: Yes.

HMJr: Then when I tried to see you last night to have a heart-to-heart talk, you'd gone.

G: (Laughs) Yes.

HMJr: And then I first thought that I would - hello -

G: Hello.

HMJr:that I would get you off the train and come back, and that seemed too - it might scare you, so I didn't do it.

G: Yeah, well, I could have done it.

HMJr: Well, anyway, the point is I did two - one thing I did was - I was sorry to have you go up because I don't think you should be traveling around the country. That's number one. I think you ought to stay home or go down on the beach somewhere till you recover from this....

G: Oh, I'm all right.

HMJr: Well, I don't think you are, you know, physically....

G: Yes.

HMJr:and I - well, anyway I called up Dick Patterson last night....

G: Yes.

HMJr:and let him get off most of what he had on his chest.

G: Yes.

HMJr: So I thought I could smooth your path a little bit up there today.

- 2 -

G: Wonderful.

HMJr: And - hello....

G: Hello.

HMJr: He went on and carried on about the bankers and everything else, and everybody he wants to bring down to see me is a banker.

G: Yes.

HMJr: It's just a question of which degree.

G: Yeah, that's right. (Laughs)

HMJr: Now the main thing he was worrying about was would I, after this Victory Fund thing, turn over the E Bond to them, you see? To the Victory Fund - hello?

G: Hello.

HMJr: And I said there was as much chance of that as my jumping off the Brooklyn Bridge.

G: Yeah. (Laughs)

HMJr: Now, Harold, don't you think that from now until Monday when you get through up there you ought to not come near the Treasury and see if you can't build up your strength a little bit.

G: Well, I'm - as a matter of fact, I feel very much better....

HMJr: Yeah.

G:Mr. Morgenthau. I think I'm all right.

HMJr: Well, your friends around the Treasury don't think you're all right. (Laughs) I - I'm just talking physically.

G: Yes, sir, I understand.

- 3 -

HMJr: And I think if from Wednesday night until Monday morning you stayed home - gave yourself a chance to build yourself up.

G: Well, fine, I'll do that.

HMJr: Now - I wish you would.

G: Yes.

HMJr: Now I sent a message through Peter last night to your state administrators in Missouri and Kansas....

G: Yes.

HMJr:telling them I'd meet them at twelve o'clock in Kansas City, Missouri.

G: Good.

HMJr: And have a talk with them.

G: Wonderful.

HMJr: Now, Harold, as between St. Louis and Chicago, if I - if I went to either place, which place would you rather have me go to?

G: You - you mean for what purpose?

HMJr: To just - well, I'm going - at eleven o'clock Saturday I'm going to talk to the Victory Fund people....

G: Yes.

HMJr:and when it's twelve o'clock I'm going to talk to the War Bonds. The Victory Fund people in Kansas wanted to give me a luncheon, and I said "no"....

G: Yes.

HMJr:because I don't - when I go whatever I'm going to do, I'm going to do equally between the two.

G: Yes.

- 4 -

HMJr: So I meant if I stopped in St. Louis and saw the Victory Fund and talked to them, I'd want to see your boys. Now where - where....

G: Well, our - our state headquarters in Illinois are at Chicago. I think that would be a very much better place.

HMJr: Chicago.

G: Chicago would be very much better from our point of view than St. Louis.

HMJr: You'd rather see me go to Chicago.

G: I would, very much.

HMJr: Right. Well, that's what I wanted to find....

G: Yes.

HMJr: Now look, Harold, on this whole business and everybody around here - (laughs) - I - I don't believe - I don't know - I wish I could see eye-to-eye that you've gotten down on this thing yourself, I mean low. Hello?

G: No, no. No.

HMJr: And the reason that I don't think so is Peter told me last night that you've been bucking all of them up.

G: I've been trying to.

HMJr: Well, evidently you've done a pretty good job, and is there anything specially that's wor.. - worrying you personally?

G: No, no, not a thing.

HMJr: Would you tell me?

G: I would tell you if there were.

HMJr: All right, because I started out to run this thing and this is what these people don't appreciate, with Civil Service people.

- 5 -

G: Yes.

HMJr: I'm depending upon Civil Service to see me through this war.

G: Yes, sir.

HMJr: And I - after ten years I'm not going to sell out to the bankers.

G: Well, I know that.

HMJr: It's just damn nonsense.

G: Yes, sir.

HMJr: And to hear Dick Patterson rave against the bankers - I mean it - it's - it's just insincere....

G: Yes.

HMJr:because every one of the people he wants to bring down, and I said he could bring them down, are bankers.

G: He wanted to bring Pope and Ford, I suppose.

HMJr: Yeah, they're both bankers.

G: That's right.

HMJr: Why doesn't he bring this fellow Smith along? They say he's good.

G: Yes, he is. He's a banker too though.

HMJr: Well, I don't care.

G: (Laughs)

HMJr: I mean it's just - but I mean this thing that they think, and I - I got Peter last night, and this idea that I'm going to after ten years sell out to them. It's just childish.

G: Yes.

- 6 -

HMJr: And the only comparison that I could make is the one of the President using Darlan.

G: Yes.

HMJr: He's going to use him and get what he can out of him.

G: (Laughs) Yes.

HMJr: And he's made no promises to Darlan, and he's getting pretty damn good results.

G: That's right.

HMJr: Well, I'm going to use the bankers and I've made no promises to them, no commitments, and I think I'm going to get pretty good results.

G: I think so too.

HMJr: But when I go to the masses, I'm going to - not going to use that crowd.

G: That's right.

HMJr: And they're not going to inch in on me.

G: Yes, sir.

HMJr: And they haven't in ten years and they don't have to - and that two per cent is no indication that I'm caving in.

G: Yes, yes, that's right.

HMJr: But you know and I want you to know that I did build this thing on you and other Civil Service people.

G: Yes.

HMJr: I turned down the original suggestion made to me to use the old Liberty Loan crowd.

G: That's right.

- 7 -

HMJr: Now I haven't changed one iota.

G: Well, I know that.

HMJr: But - and if you can get that over to the people and get them so they believe it....

G: Yes.

HMJr:I mean I've got a ten-year record, why should I now, when I'm not hard-pressed, sell out to these fellows?

G: That's right.

HMJr: It's childish.

G: Well, I think we've got to do a little missionary work on people like Dick Patterson, and....

HMJr: I think you've got to do it, and then one thing, Miss Elliott came to me about something in Pittsburgh. Okay.

G: Yes.

HMJr: But I - I - I - your attitude has been to keep as much of this away from me. Now when it sprouts up, you should tell me.

G: All right, I will.

HMJr: And then you and I can sit down. But I don't want to get it from a half-a-dozen quarters.

G: Yes. Well, I - I've wanted to spare you any of this quibbling about....

HMJr: Yes.

G:these things.

HMJr: Well, I - I'm glad to see Miss Elliott, but I can't see them over and over again, because....

G: Yes.

- 8 -

HMJr:you can sum them all up and say, "Mr. Morgenthau, now here's the thing. Victory Fund is going out and hiring a lot of women, and they're doing this, they're doing that"....

G: Yes.

HMJr:"will you get out a telegram to the Victory Fund and tell them to stop it?"

G: Yes.

HMJr: And I'll do it.

G: Yes.

HMJr: And - so there'll be a couple of people who resign here and a couple here, and they're volunteers, and so what?

G: Yes, that's right.

HMJr: And - and some more will come back. But if the Victory Fund people step on the toes of your people, let me know and I'll stop it overnight.

G: Yes, sir.

HMJr: So you carry on. Don't take it too hard today, and then I'll see you Monday.

G: Fine. Well, thank you a lot for calling.

HMJr: Okay.

G: Thank you, sir.

HMJr: Goodbye.

G: Goodbye.

November 25, 1942
9:40 a.m.

TAXES

Present: Mr. Gaston
Mr. Paul
Mr. Sullivan
Mr. Kuhn
Mr. Blough
Mrs. Klotz

H.M.JR: I am groping a little bit. I have been so busy on this war bond business that I have not had much time to think about taxes.

Before I get into the thing, how are you coming on the recruiting of your personnel?

MR. SULLIVAN: Very well, sir. The reports we have had from collectors are far better than I expected.

H.M.JR: You are watching it each week?

MR. SULLIVAN: Yes, and that Mrs. Dunbar was here. She won't be able to do it, but she is giving us somebody the middle of the week. I don't think we will get many people as a result of her work, but I think she is going to give us some ideas on recruitment which will be very worthwhile.

H.M.JR: I think in this way some of the mist or fog could be dispelled on some of this tax stuff, and that is - I don't know, but I was thinking particularly of what Paul calls the "modified Ruml plan - " I mean the Treasury plan. What I was thinking about was this, it really falls in your (Sullivan) alley, and these people here, including myself, can assist. I would like somebody to prepare a statement for me - not a speech,

- 2 -

but a statement, and I think Blough is the fellow that might do it. I am thinking of a man with five thousand dollars or less of income - what does he have to do to pay his taxes, what are the charges, and so forth, and so on, and what can the Government do to make his path any smoother?

Now, I would like not a speech, but a factual statement, when I come back, and the thing that I am thinking about is that - we have got a very good relationship, for instance, with the Labor press, and I might write an article for them, a statement particularly designed to go to the working man and working woman, sometime early in December.

MR. PAUL: I am having a group of Labor people in tonight. Maybe I could talk to them about it.

H.M.JR: I wish you would. I don't think we have done enough; I don't think we have begun to do enough. I have been so busy on this bond drive that I have not been able to think about it. Everybody else is shooting off their mouths, outside of Treasury, and I would like to know--

MR. PAUL: We are preparing a letter to Bromfield, much of which could be in your statement, if you want to convert it from that to your statement.

MR. SULLIVAN: Most of the pressure for the Ruml plan comes from people with big taxes.

Now, I have not been worried about the little fellow, and I am not worried about it. I got the figures yesterday afternoon for the last twenty-two years, and the average taxes on individual incomes that we were unable to collect was only twelve and a half million dollars a year for twenty-two years.

H.M.JR: Yes, but how many taxpayers did you have?

MR. SULLIVAN: But the significant part of it, Mr. Secretary, is that in 1941 we had more than twice as

- 3 -

many as we ever had in the bigger year before, and the total number of defaults was less than eight million. It was more than four and a half million below the average. In 1942 we increased it again more than it had ever been increased before and more than we will increase it this year, and there was only about nine and a half million in default in '42.

H.M.JR: I don't know whether those figures have been gotten out or not.

MR. SULLIVAN: Yes, sir, the memorandum I am now quoting I got yesterday afternoon from Mr. Helvering.

H.M.JR: Have they been given to the public?

MR. SULLIVAN: I gave figures out, as you know, last week in another press conference.

H.M.JR: I have been so busy I have not been able to assimilate it myself. I think Roy should fix me up something. I am going to take this attitude because you have not shown me yet - but let's say something along these lines to the public, "This is the situation as it has been to date." I don't want to go into a speech, but then I want to know what we are going to do. I mean, there is no reason to assume that this will be true this coming year. What, if anything, are we going to do to make it any easier for them? I mean, you have the whole press believing that we in the Treasury don't want to make it any easier for the taxpayer. They say we are going to lose a lot of money, and all that stuff. We have got to do something to try to reverse that before the new Congress meets.

In the first place, I have to get my facts. I don't know my facts. Maybe you can sell me on the idea that everything is rosy and lovely; I doubt it. The fellow on the street has got the impression that the next year is going to be a terrible burden, and it is part of a political campaign, which I have been tipped off on, to make the fellow squirm under the fact that it is the Roosevelt Administration that is

- 4 -

putting this tax burden on him. Somebody - I won't name him - thought you (Sullivan) had made a political mistake in this last statement about the method of easing the taxes. It was politically unwise, you see.

MR. SULLIVAN: To mention easing it?

H.M.JR: No, the method of easing it and all the rest of it.

MR. KUHN: Six percent interest statement.

H.M.JR: I am just repeating--

MR. SULLIVAN: I think it was a political mistake, Mr. Secretary, to say anything at all about it. I think that once you had acknowledged it in your press conference that we had a considerable problem, then I had to go on from there. I think the mistake was in acknowledging the problem, because the problem is not any greater than it has been in the last two years, or last year at this time, or a year before that at this time they were asking the same questions.

H.M.JR: All I was doing when they asked me was to tell them that you were handling it. I am under the impression from reading the newspapers that it is a problem.

MR. SULLIVAN: It is. It is the same kind of a problem.

H.M.JR: Don't get me wrong. I didn't call this meeting together to have recriminations.

MR. SULLIVAN: I understand.

H.M.JR: I have been told - I am not looking for trouble, but on these attacks on this Administration about burdensome taxes, how the Treasury - not just the Treasury, but the whole Administration is bearing down on the fellow, and so forth, and so on. The question is, how to combat it.

- 5 -

MR. SULLIVAN: It might be interesting along that line that almost all of the mail that has come in to me as a result of that conference has been extremely critical of trying to relieve taxpayers of paying their tax bill when the tax is due.

H.M.JR: John, I have not - the purpose of this meeting is to get the people in this room to thinking about it. I want Blough to give me the facts when I get back. I don't know my facts.

MR. PAUL: I think we ought to make a speech - you or me or somebody - and say that the Ruml plan is no good without collection at the source. We were the first people to propose that, and we proposed a modified Ruml plan in the interest of taxpayers last September. This plan would have cleared, or made current, eighty-five percent of our taxpayers. We ought to come out and say that and get it across.

H.M.JR: I think it is time that I did it. I think I have got to do it.

MR. SULLIVAN: Is that the thing we are still for?

H.M.JR: I don't know.

MR. PAUL: We have a little variation of it.

MR. BLOUGH: We need more variation, but that would have done it.

MR. PAUL: We have got the new one.

H.M.JR: Did they vote on it up there?

MR. PAUL: They voted ten to nine against it.

MR. BLOUGH: It was all mixed up with the Victory Tax and everything else.

MR. PAUL: Byrd was very strong for it. They voted twice on it.

- 6 -

H.M.JR: As I say, I want to think this thing out. I don't want to make one statement. I want to start a campaign here to justify our position and go into the whole thing, and again I think that labor is our only friend on this thing. Anything I do I will try out on them first.

MR. PAUL: That is right. I can try a little business with them tonight. I am seeing a group of them. I think we have a lot that we can point to that we have done already to make tax-paying simpler and easier, not only the simplified form, but doing away with the notarizing of returns. There is a whole kettle of hardships, and so on, that we are alleviating.

MR. KUHN: Godfrey Nelson said that there had never been a revenue act that contained so many relief provisions as that one.

MR. SULLIVAN: They are all corporate relief.

MR. PAUL: Look at the medical expense one. They are not all corporate relief.

MR. KUHN: I would make clear some of the things that have already been done.

H.M.JR: It all gets back again to Roy Blough to get down something factual, not a speech, but something factual. I think it is for me to take the positive side, not the defensive, but we have done so and so.

MR. GASTON: That is substantially what I suggested the other day - last Friday - on this matter of the pay-as-you-go thing. I thought Randolph should in an early speech jump out in front in advocacy of pay-as-you-go and point out the fact that the Treasury was the first to advocate a pay-as-you-earn, or pay-as-you-go plan, and that we have been steadily campaigning for the pay-as-you-go method of paying taxes, but not for the forgiveness of income taxes in a certain year.

- 7 -

MR. SULLIVAN: You started that a year ago this month - the withholding tax.

MR. GASTON: The withholding tax, that is, the pay-as-you-go principle--

H.M.JR: John, again, I didn't call anybody in here to have any recriminations. I am just laying everything on the table. We have got to work together. If it is my blunder, then it is my blunder.

MR. SULLIVAN: I didn't mean it that way, sir.

H.M.JR: That is all right, I make many - twice a day, once in the morning and once in the afternoon. (Laughter) But the point is sort of beginning - I have been back three and a half weeks, and everything I have done has gone into getting this nine billion dollar thing. I think I have signed the last telegram; and when I make this address with the President for the movies this morning, I think we will be all set. The boys have got to go to work.

When I come back next week I want to begin to study and talk taxes. I mean, I can only do one thing at a time.

MR. GASTON: I think we have to consider whether you want to make any statement which will stir George and Woughton up again. We have two roads to take. One is to say it is perfectly useless; we can't come to any agreement with those fellows and we might just as well needle them; get the Treasury's record out and put the pressure on, put the heat on. That may be the best thing to do.

The other road is the thing of trying to get some better understanding with George and let him talk, but not talk ourselves.

H.M.JR: I don't know. Then we have got the Jimmy Byrnes element.

- 8 -

MR. GASTON: We have got the Jimmy Byrnes element to consider.

H.M.JR: If we could get a few more cartoons like the one in last night's Star, it would help a lot.

MR. KUHN: That was a peach.

MR. PAUL: I still think Byrnes can be a lot of help to us if we can manage it.

H.M.JR: Take it from me, I have known the man since '33, and you can't manage it; I can't.

MR. PAUL: It is going to be awfully hard for us to get anything through if he is not with us. His absence would be conspicuous.

(Mrs. Klotz entered the conference.)

MR. GASTON: I was rather pleased by that report of this Stabilization Board meeting the other day. The attitude - Jones' statement indicated that he might be sympathetic towards the spendings tax, and then we had the two businessmen - we had Eric Johnson of the Chamber of Commerce and Flanders of the National Association of Manufacturers - who are both strong for additional taxes.

H.M.JR: I think Flanders seems to be a good bet. Anyway there is no use in my going over and over it. You have the idea. I think the way to start is to start with Blough; and if the thing is ready before I come back, you might give these people a copy so they could be thinking about it.

MR. BLOUGH: When will you be back, sir?

H.M.JR: Monday will be the earliest.

MR. BLOUGH: There will be copies much earlier on the factual - probably Friday.

H.M.JR: O.K.

November 25, 1942
10:08 a.m.

Randolph
Paul:

Yeah.

HMJr:

I just got a letter from Jimmy Byrnes in which he says that under Order 9250 he's responsible for formulating and putting into effect a comprehensive national policy with respect to profits - hello?

P:

Yeah.

HMJr:

Now I don't know whether he is or isn't, but does that go to you or to Sullivan?

P:

You better send that to me.

HMJr:

To you.

P:

Yeah.

HMJr:

Yeah, inch by inch.

P:

(Laughs)

HMJr:

What?

P:

Yeah, don't do anything on that until you talk with me after you come back.

HMJr:

All right. Why, are you worried about it?

P:

Yeah.

HMJr:

What?

P:

I am, yeah. Well, I'm not - I'm not immediately
....

HMJr:

Well, isn't profits taxes? Isn't he saying in this letter that this is his responsibility?

P:

No, not - not - not by terms.

HMJr:

He said, "Furthermore, the Price Administrator is directed to take account of excess profits in fixing the price of those items now under ceiling control. Such a comprehensive national policy must find application, negotiation, renegotiation of Government contracts."

- 2 -

P: Oh, well, that - yeah, that's....

HMJr: "I should, therefore, be grateful if you would inform me as to the standards of profit control now applied in your department as well as those which in your opinion would best effectuate the purpose of Executive Order 9250."

P: Oh, well, that's - that's just a renegotiation.

HMJr: Is that what it is?

P: Yeah, that - that should certainly come to me.

HMJr: Okie-doke.

P: All right.

HMJr: Thank you.

November 25, 1942
10:23 a.m.

HMJr: Hello.

Operator: Chairman Eccles is not there, but they expect him in about ten or fifteen minutes.

HMJr: Oh. Well, see whether - remind me when I come back from the White House.

Operator: Right.

11:35 a.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello, Marriner.

Marriner Eccles: Yes, Henry.

HMJr: I'm just going away now. I won't be back until Monday, and I just wanted to tell you I appreciate how much you've done to help us, and what's-his-name - Buffington, will be in touch with you on this advertising....

E: Yes.

HMJr:and whatever you and he and the rest of them think best, why, we'll leave it that way.

E: Well, I'm - I'm going up to - I have a son in the Army over in New Jersey, and I'm - he expects to get a 24-hour pass so I'm going up to New York - be - I expect to be up there Saturday and Sunday.

HMJr: Yeah, well, I'm going out to join my son out at Fort Riley.

E: Oh yeah. Well, we're both in the same boat.

HMJr: Right. Well, can George call you - when are you leaving this morning?

- 2 -

E: Well, I'm not going until Friday.

HMJr: Well, he'll be....

E: I'll be here all day today and tomorrow and Friday - Friday up until afternoon.

HMJr: Well....

E: Byrnes' committee is meeting on Friday too, aren't they?

HMJr: Well, he'll call you between now and twelve o'clock.

E: Listen, on - let me ask you this. I have this advertising....

HMJr: Yes.

E:the - that was sent over. You've seen it, of course.

HMJr: Yes.

E: And I've talked to Sproul about the matter, and I talked to Buffington last night, and as I understand it, you - you would like to -- if we can see our way clear to paying for newspaper advertising on the opening day in each of the Victory Fund - in each of the cities where there's a Victory Fund Committee -- as far as the Treasury is concerned, you'd like to see that done.

HMJr: That's right. What I thought was that you might sort of underwrite it in the sense that - get as many of the people as they can to contribute towards it. Then if in some places it's short, why, possibly you could underwrite it.

E: Well, there - there - I'd - let me give you this picture. Now there's two different ads. There's the one big ad that we - that if it's done we felt that the Federal Reserve Bank should pay for it....

HMJr: Yeah.

- 3 -

E:on the opening day in the hundred and twelve cities where there is a Victory Fund Committee.

HMJr: Yes.

E: That is, a paid office set-up....

HMJr: Yes.

E:that - that then the banks would follow up during the campaign at the request - not of the Federal Reserve - we don't like to request the banks to do anything, but the A.B.A. is - are - is requesting, you see, each of their members to do it.

HMJr: That would be perfect.

E: Now - so that we might - now I'm not sure. I haven't check.. - I'm checking it with the Board now....

HMJr: Yes.

E:and I - and it's a question of - it's a question of precedent. It's just a question if - if whether or not they're going to be favorable to starting to paying for advertising....

HMJr: Yeah.

E:be.. - because, of course, there is always a question of - of establishing a precedent.

HMJr: Well....

E:and - but I'm personally favorable to doing it.

HMJr: That's fine.

E: I'm willing to take the chance on the precedent.

HMJr: Well, that's grand.

E: And - so I think we might be able to work it out unless there's - I get too much opposition over here.

HMJr: Well, see what you can do, Marriner.
E: Yes. Well, I hope you have a pleasant trip.
HMJr: Same to you.
E: All right.
HMJr: Thank you.
E: Goodbye.

Nov. 25, 1942

65

Film made at the White House to inaugurate the Victory Drive.

Secretary Morgenthau: Mr. President, you know that we are launching a Victory Loan drive to raise \$9,000,000,000 in December. That's the biggest amount of money ever raised by any government in such a short time. It would be most helpful if you would launch the Victory Loan for us and buy the first of the new bonds, the new Victory two-and-one-halves, from me.

The President: I'd like to. Is this the drive you've been telling me about, Henry?

Secretary Morgenthau: Yes, this is the Victory Loan drive. We've got almost 50,000 professional salesmen, men from the securities and banking and insurance fields, who are going to sell these bonds for us -- and most of them are going to do it as a patriotic service without pay. These men are organized in the Victory Fund Committees in all parts of the country. They've been trained all their lives to reach the people who have accumulated savings and idle funds, and those are the people we want to reach in this Victory Loan drive. These bonds, at \$500 and up, are the ideal investment for them.

The President: Well, I'm delighted to hear of what the Victory Fund Committees are doing, and I'll be glad to buy the first bond. Steve, where's my check?

(President buys bond)

The President: Every day I get inspiring reports from our commanders in the field -- in Africa, in the Solomons, and in battle stations all over the world. As Commander in Chief, I'm proud of what our fighting men are doing. They are giving us on the home front a high standard to live up to.

It is one of our jobs here at home to provide the dollars -- the untold billions of dollars -- that are needed to help win this war. I know that millions of you -- more than 23 millions -- are already buying War Bonds out of your regular pay every pay day. But there are other millions of private investors, corporations, custodians of trust funds, and estates, who have idle money in the bank. That money has got to go to work for our country. We have got to make our dollars "fighting dollars" by investing them in Government bonds.

The new Victory Loan gives us a new chance to make those dollars fight. This is no time for men or money to be idle. Let's put our money to work by buying the new bonds, the Victory two-and-one-halves -- for Victory.

TREASURY DEPARTMENT

68

INTER OFFICE COMMUNICATION

DATE Nov. 25,
1942

TO The Secretary
FROM Mr. Odegard

At your suggestion, I called Evan Griffith, State Administrator of the War Savings Staff in Kansas, and Dan M. Nee, State Administrator of the War Savings Staff in Missouri. I asked them to meet you at the War Savings Staff headquarters in Kansas City at 12 noon, Saturday, November 28. They will be there. The War Savings Staff headquarters in Kansas City is located in the Federal Reserve Bank building.

Both Mr. Griffith and Mr. Nee were genuinely pleased that you had asked them to meet with you.

NOV 25 1942

Dear Mr. Norton:

The Treasury Department would like to enlist your support as President of the Council of Books in War-time in formulating plans for a special War Savings Campaign. I wish to propose to the Council a drive in which writers and their publishers would combine forces on a nationwide scale to increase the sale of War Bonds. It is my belief that the period between Lincoln's and Washington's birthday would be particularly appropriate for this Campaign.

I am, therefore, directing Julian Street, Jr., of my office, to get in touch with you.

It is my hope that you will be able to give us the support of your organization upon which we must largely rely for the success of this proposal.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. W. Warder Norton, President,
Council of Books in Wartime, Inc.
347 Fifth Avenue,
New York, New York.

JS:vm:FK:eg

CC in Diary

Copies to Thompson

JK-

NOV 25 1942

To the Editors of Industrial Publications:

The Treasury Department is deeply grateful to the industrial editors of the nation for their splendid cooperation in the War Savings Bond Program.

Through your publications you have given invaluable help in promoting the Payroll Savings Plan for the purchase of War Bonds. At the present time over twenty-three million workers are setting aside nearly eight per cent of their pay for this purpose every pay day. In helping to achieve this record, the industrial editors have performed an outstanding service and I wish to extend to you my sincere thanks.

With the ever-increasing demands of war, the Treasury Department has been compelled to raise its sights. We are, therefore, making a concerted effort to increase the effectiveness of our Payroll Savings Plan by enlisting not less than thirty million workers at a rate of savings equal to not less than ten per cent of their gross pay.

Your publications are an important line of communication between the Treasury Department and the workers of America. I count upon your assistance in our drive to reach this goal by January 1. Thank you again for your generous cooperation.

Sincerely,

(Signed) H. Morgenthau, Jr.

PHO:jrc

Orig. and extra copies
to Odegard

Copies in Diary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov. 25, 1942

TO THE SECRETARY
FROM PETER H. ODEGARD

Some weeks ago you asked to have a Streamer along the lines of the attached, prepared and sent to retail stores and other outlets for display. The accompanying Streamer has been printed and distributed in the following quantities:

100 M - 5" x 10" - 60 M to field
40 M to Chicago

500 M - 33" x 5 $\frac{1}{2}$ " - 300 M to field
200 M to Chicago

500 M - 16 $\frac{1}{2}$ " x 2-3/4" - 300 M to field
200 M to Chicago

BUY WAR BONDS

BUY WAR BONDS

BUY WAR BONDS

November 25, 1942

TO: Mr. Callahan
FROM: The Secretary

Thank you for having gotten for me a recording of "Mamma, Buy Me That". After hearing it, I have lost all interest in it.

Record ret'd to Mr. Sloan

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

76
DATE Nov. 20, 1942

TO Mrs. Klotz
FROM Mr. Callahan

With reference to my memorandum of November 14th I am attaching hereto a recording of the song "Mamma, Buy Me That". This recording can be played on any phonograph machine.

TREASURY DEPARTMENT

77

INTER-OFFICE COMMUNICATION

DATE

November 25, 1942

TO Secretary Morgenthau

FROM Randolph Paul

Attached is a little light reading for your trip. I am afraid that it wouldn't be light reading to the American public. When we saw what the suggested totals mean in the terms of rates and individual burdens, we concluded that we had shot too high in this first draft. However, the draft will serve to bring you up to date with our thinking.

When I say the rates are too high, I think in terms of total burden, particularly the spendings tax rates, while theoretically justified, are out of practical reach.

In connection with the rates, it must be remembered that we must shoot high enough to make up for the loss of voluntary savings.

We will go on working on the problem and have something better for you when you return.



Attachment

TREASURY DEPARTMENT

77

INTER-OFFICE COMMUNICATION

DATE

November 25, 1942

TO Secretary Morgenthau
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Attachment

Suggested Revenue Program for 1943

First Draft .

1. Individual net income tax and compulsory lending program:

Additional funds:

Refundable part	\$15 billion	
Non-refundable part	<u>\$3 billion</u>	
Total additional funds		\$18 billion

Exemptions:

Compulsory lending	} \$400-\$800-\$200
Individual income tax	

Rates: (For married couples, no dependents) *

1st \$200	16 percent (plus 4% normal tax)
Over 500,000	91 percent (plus 4% normal tax)

Amount refundable: (For married couples, no dependents)*

1st \$40 of tax	100%
Next 100 of tax	50%
Next 10,000 of tax	25%

Collection at source:

Full liability determined from a prepared table.

2. Spending tax on individuals:

Additional funds:

\$ 5 billion

Exemptions:

\$800 - \$1,600 - \$400

Rates: (For married couples, no dependents)*

1st \$400,	20%
Over 10,000,	500%

No part refundable

Collection at source

As integral part of collection at source of income tax and compulsory lending.

3. Repeal Victory tax, revenue recouped under schedule in 1 above.

Total

\$23 billion

Net increase:

Non-refundable taxes

\$ 8 billion

Refundable taxes

15 billion

Total

\$23 billion

* The brackets and amounts of tax are different for single persons and families with dependents.

Revenue program to raise approximately \$23 billion:
\$3 billion additional individual income tax;
\$15 billion compulsory lending;
and \$5 billion spendings tax

I. Introduction

The attached four tables give the rate schedules for a combined income tax compulsory lending and spendings tax program designed to raise approximately \$23 billion in addition to the revenue from taxes under the 1942 Act. Table 1 gives the rate schedule for the combined income tax and compulsory lending plan. Table 2 illustrates the combined burden of the income tax and the compulsory lending under the schedule in Table 1. Table 3 gives the rate schedule for the spendings tax. Table 4 illustrates the overall burden of the income tax, the compulsory lending and the spendings tax under the rates in Tables 1 and 3.

II. Brief explanation of the program

A. Income tax and compulsory lending

1. Explanation of tax schedules

(a) Exemptions: The exemptions for compulsory lending are \$400 for a single person; \$800 for a married couple and \$200 for each dependent. However, since the tax on the first bracket of income above these exemptions is all refundable, no income tax would in effect be paid on income of \$500 for single persons; \$1,000 for married couples and \$250 for each dependent.

(b) Rates: The rates in the overall income tax and compulsory lending schedule in Table 1 begin at 16 percent on the first bracket above exemptions and rise to 91 percent. These rates are in addition to a 4 percent normal tax, making the rates for the combined normal and surtax range from 20 to 95 percent. No earned income credit is provided.

- 2 -

(c) Refundable part of tax: In the case of a married couple with no dependents the refundable part of the tax computed under the rates in Table 1 is as follows: 100 percent of the first \$40; 50 percent of the next \$1,000; and 25 percent of the next \$10,000. For single persons the amounts of tax to which the above percentages apply are one-half of those indicated above. For families with dependents the amounts are increased by 25 percent for each dependent.

Table 2 shows how the total tax is divided between the refundable or compulsory lending part and the non-refundable or tax part.

As shown in Table 2 the combined burden of the income tax and the compulsory loan is substantially above the existing combined income and Victory tax at all levels of income. Individuals with heavy fixed commitments might find it difficult to meet the overall burden. To alleviate such situations it is suggested that consideration be given to a limited credit for voluntary savings against the refundable part of the tax. The limited offset suggested is half of all savings for life insurance, debt repayment, and war bond purchases in excess of 10 percent of net income. The figures in the attached tables do not give effect to this credit. If a credit for voluntary savings were allowed, somewhat higher rates would be needed to yield the indicated amounts of revenue.

(d) Tax part: As seen in Table 2, the non-refundable part of the tax is slightly less than the present Victory and income tax combined for married couples with no dependents and incomes of less than \$2,891. The tax part will fall below the present law at different points for single persons and for families with dependents. For single persons with no dependents the proposed liability is less than the present for incomes below \$1,830; for married couples with two dependents, the proposed liability is less than the present for incomes below \$1,768.

The proposed schedule would reduce the disproportionately heavy burden imposed by the Victory tax on families with low incomes, particularly those with several dependents.

- 3 -

2. Pay-as-you-go

From the formative stages of the 1942 revenue program, it became clear that the income tax must be put on a pay-as-you-go basis if it is to play its proper role in the fiscal program to control inflation and, perhaps more important, if it is to be cheerfully borne by the great numbers subjected to it at increasingly stiffening rates.

If the rates in the attached program are to be enacted, some pay-as-you-go plan is imperative. One possible method of changing over to a current tax paying basis at this juncture is as follows:

(a) Permit the taxpayer to defer the payment of the three-quarters of 1942 income tax liabilities payable in June, September, and December of 1943 and offset such liabilities against the compulsory loan otherwise refundable in the post-war period. Notice would need to be given to the taxpayer in sufficient time to stop him from paying more than one-quarter of the 1942 liabilities in March 1943.

(b) Beginning April 1, 1943, collect at source the full liability on salaries and wages (and possibly also on interest and dividends) computed under the rates in Table 1. The amounts to be collected at source would be determined by reference to a table showing the amount to be withheld at various levels of income for persons with different marital status. The amounts collected at source would be credited against the combined income and compulsory lending liabilities due March 15, 1944.

(c) Repeal the Victory tax effective April 1, 1943, and credit amounts collected at source against the 1942 income tax liabilities and any excess of such credits against the 1943 liabilities, refunding in 1944 any excess not offset either by the 1942 or the 1943 liabilities.

The proposed schedule in Table 1 makes up the revenue loss from the proposed repeal of the Victory tax.

(d) Provision would be made for quarterly reporting and tax payment for income not subject to collection at source.

B. Spending tax

1. Explanation of schedule

(a) Exemptions: The exemptions for the spending tax are \$300 for a single person, \$1,600 for a married couple, and \$400 for each dependent. These exemptions are double those for the compulsory lending schedule. Higher exemptions for the spending tax are suggested to avoid overburdening the low income classes already subjected to heavy withdrawal of income under the combined income tax and compulsory lending schedule in Table 1. Furthermore, the return for the spending tax is more complex than the return for the income tax and compulsory lending, therefore it is less desirable to extend the spending tax to the millions of taxpayers in the very low income classes.

(b) Rates: The rates of spending tax are sharply progressive reaching 500 percent on spendings of a married couple of over \$10,000.

The high rates in the upper spending brackets are necessary to assure the desired curtailment in consumption. The compulsory lending schedule will constitute an adequate curb on persons in the lower income brackets, but this measure cannot be relied upon to curtail consumption effectively for the individuals in the higher income brackets with substantial assets available to be converted for the purpose of maintaining customary consumption standards. The high spending tax rates are needed to close this very sizeable loophole in the compulsory lending plan.

(c) Collection at source: A tentative spending tax would be collected at source on the basis of income as an integral part of the collection at source plan outlined above for the income tax and compulsory lending plan.

C. Appraisal of the program in terms of reductions in consumers' spendings

The program outlined above will curb consumer expenditures by about \$14 billion if it were fully effective

for 1943. Available data indicate that consumer's expenditures during 1943 will need to be curtailed by \$16 billion if they are not to exceed the value of available goods and services at present prices estimated at \$70 billion.

Clearly, the rates suggested are too low to reduce consumption by \$16 billion. In addition there are two reasons why the program is not adequate for 1943. (1) The plan comes into operation late -- April 1 instead of July 1, 1943; and (2) even if it were to come into operation on July 1, 1943, it would still not be fully effective in curtailing immediate consumption because the amounts collected at source on separate items of income under graduated rates will fall short of the aggregate liability on all items of income combined.

Treasury Department,
Division of Tax Research

November 24, 1942

Table 1.

Rate schedule for income tax and compulsory lending
to replace present income and Victory tax and yield
\$3 billion additional tax and \$15 billion
of compulsory lending

Married couple -- No dependents

Net income after personal exemptions ^{1/} _{2/}	:	Bracket rate ^{3/}	:	Cumulative tax ^{3/}
0 - \$ 300	:	16%	:	\$ 32
\$ 300 - 600	:	24	:	128
600 - 1,000	:	34	:	264
1,000 - 2,000	:	41	:	674
2,000 - 3,000	:	50	:	1,174
3,000 - 4,000	:	56	:	1,734
4,000 - 6,000	:	60	:	2,934
6,000 - 8,000	:	65	:	4,234
8,000 - 10,000	:	69	:	5,614
10,000 - 12,000	:	71	:	7,034
12,000 - 16,000	:	73	:	9,954
16,000 - 20,000	:	76	:	12,994
20,000 - 24,000	:	78	:	16,114
24,000 - 30,000	:	79	:	20,854
30,000 - 40,000	:	80	:	28,854
40,000 - 60,000	:	82	:	45,234
60,000 - 100,000	:	84	:	78,854
100,000 - 200,000	:	86	:	164,854
200,000 - 500,000	:	89	:	431,854
over 500,000	:	91	:	-

Treasury Department,
Division of Tax Research

November 24, 1942

Of the total tax, including the 4 percent normal tax, the following portion is refundable:

Of the first \$ 40 ^{2/} of tax, 100% is refundable.
Of the next \$ 1,000 ^{2/} of tax, 50% is refundable.
Of the next \$10,000 ^{2/} of tax, 25% is refundable.
Over \$11,040 ^{2/} of tax, 0 is refundable.

- ^{1/} Personal exemptions: Single person - \$400
Married couple - \$800
Each dependent - \$200
- ^{2/} For single persons, brackets are half of those shown, for families with dependents, brackets are larger than these shown.
- ^{3/} Excludes 4 percent normal tax.

WSV

Table 2.

Comparison of individual tax liability under present income tax and Victory tax with proposed income tax and compulsory leading

Married couple -- No dependents

Net income: before personal exemptions: 1/	Amount of levy			Effective rates		
	Combined present income tax and net Victory tax 2/	Proposed tax		Combined present income tax and net Victory tax 2/	Proposed tax	
	Total	Refund- able part 3/	Tax part	Total	Refund- able part 3/	Tax part
\$ 800	\$ 8	-	-	-	1.0%	-
900	11	\$ 20	\$ 20	-	1.2	2.2%
1,000	15	40	40	-	1.5	4.0
1,500	79	190	115	\$ 75	5.3	12.7
2,000	188	394	217	177	9.4	19.7
2,500	297	619	329	290	11.9	24.8
3,000	405	862	451	411	13.5	28.7
4,000	647	1,414	633	781	16.2	35.4
6,000	1,173	2,662	945	1,717	19.6	44.4
8,000	1,780	4,002	1,280	2,722	22.3	50.0
10,000	2,467	5,430	1,637	3,793	24.7	54.3
15,000	4,533	9,208	2,582	6,626	30.2	61.4
25,000	10,035	17,240	3,040	14,200	40.1	69.0
50,000	27,075	38,366	3,040	35,326	54.2	76.7
100,000	68,584	82,180	3,040	79,140	68.6	82.2
500,000	440,747	451,110	3,040	448,070	88.1	90.2
1,000,000	899,000 4/	926,094	3,040	923,054	89.9 4/	92.6
5,000,000	4,499,000 4/	4,726,094	3,040	4,723,054	90.0 4/	94.5

Treasury Department, Division of Tax Research

November 26, 1943

1/ Personal exemptions: Single person - \$400
Married couple - \$800
Each dependent - \$200

2/ Maximum earned net income assumed for purposes of the income tax.

3/ Of the total tax the following portion is refundable:

Of the first \$ 40	of tax, 100% is refundable.
Of the next \$ 1,000	of tax, 50% is refundable.
Of the next \$10,000	of tax, 20% is refundable.
Over \$11,040	of tax, 0 is refundable.

4/ Taking into account the maximum effective rate limitation of 90 percent.

Table 3

Spending tax schedule to raise \$5 billion
of revenue, assuming total expenditure of \$70 billion

Married couple - No dependents

Spending brackets 1/	Bracket rate	Cumulative tax
\$ 0 - 1,600	0%	\$ 0
1,600 - 2,000	20	80
2,000 - 2,400	40	240
2,400 - 3,000	70	660
3,000 - 4,000	100	1,660
4,000 - 5,000	150	3,160
5,000 - 6,000	200	5,160
6,000 - 8,000	300	11,160
8,000 - 10,000	400	19,160
over 10,000	500	-

Treasury Department November 24, 1942
Division of Tax Research

1/ For single persons the brackets will be half of those shown; for families with dependents the brackets will be increased for each dependent by 25 percent of those shown.

Table 4

Combined effect of proposed income tax and spendings tax
at selected income levels and assumed alternative amounts of spending

Married couple - no dependents
Personal exemptions: Income tax - \$800
Spending tax - 1,600

	<u>Net income \$1,500</u>	
Assumed spendings	\$1,300	\$1,100
Income tax, total	190	190
Refundable part	115	115
Non-refundable part	75	75
Spending tax	-	-
Total non-refundable tax	75	75
Total tax	190	190
Balance available for voluntary spendings ^{1/}	10	210
Total non-refundable tax as a percent of income	5.0%	5.0%
Total tax as a percent of income	12.7%	12.7%
	<u>Net income \$2,500</u>	
Assumed spendings	\$1,800	\$1,500
Income tax, total	619	619
Refundable part	329	329
Non-refundable part	290	290
Spending tax	40	-
Total non-refundable tax	330	290
Total tax	659	619
Balance available for voluntary savings ^{1/}	41	381
Total non-refundable tax as a percent of income	13.2%	11.6%
Total tax as a percent of income	26.4%	24.8%

^{1/} Exclusive of savings from deductible or tax-exempt items.

Table 4 (continued 2)

Combined effect of proposed income tax and spendings tax
at selected income levels and assumed alternative amounts of spending

Married couple - no dependents

Personal exemptions: Income tax - \$800
Spendings tax - 1,600

	<u>Net income \$4,000</u>	
Assumed spendings	\$2,300	\$1,800
Income tax, total	1,414	1,414
Refundable part	633	633
Non-refundable part	781	781
Spendings tax	200	40
Total non-refundable tax	981	821
Total tax	1,614	1,454
Balance available for voluntary savings ^{1/}	86	746
Total non-refundable tax as a percent of income	24.5%	20.5%
Total tax as a percent of income	40.4%	36.4%
	<u>Net income \$10,000</u>	
Assumed spendings	\$3,400	\$2,800
Income tax, total	5,430	5,430
Refundable part	1,637	1,637
Non-refundable part	3,793	3,793
Spendings tax	1,060	520
Total non-refundable tax	4,853	4,313
Total tax	6,490	5,950
Balance available for voluntary savings ^{1/}	110	1,250
Total non-refundable tax as a percent of income	48.5%	43.1%
Total tax as a percent of income	64.9%	59.5%

^{1/} Exclusive of savings from deductible or tax-exempt items.

Table 4 (continued 3)

Combined effect of proposed income tax and spendings tax
at selected income levels and assumed alternative amounts of spending

Married couple - no dependents
Personal exemptions: Income tax \$ 800
Spendings tax - 1,600

	<u>Net income \$25,000</u>	
Assumed spendings	\$ 4,800	\$ 3,500
Income tax, total	17,240	17,240
Refundable part	3,040	3,040
Non-refundable part	14,200	14,200
Spendings tax	2,860	1,160
Total non-refundable tax	17,060	15,360
Total tax	20,100	18,400
Balance available for voluntary savings ^{1/}	100	3,100
Total non-refundable tax as a percent of income	68.2%	61.4%
Total tax as a percent of income	80.4%	73.6%
	<u>Net income \$100,000</u>	
Assumed spendings	7,600	5,000
Income tax, total	82,150	82,150
Refundable part	3,040	3,040
Non-refundable part	79,110	79,110
Spendings tax	9,960	3,160
Total non-refundable tax	89,070	82,270
Total tax	92,110	85,310
Balance available for voluntary savings ^{1/}	290	9,690
Total non-refundable tax as a percent of income	89.1%	82.3%
Total tax as a percent of income	92.1%	85.3%

Treasury Department
Division of Tax Research

November 24, 1942

^{1/} Exclusive of savings from deductible or tax-exempt items.

NOV 25 1942

Dear Dr. Foster:

Mrs. Roosevelt has asked me to reply to your letter of November 11, 1942, in which you ask for information regarding gifts to philanthropic institutions.

The Revenue Act of 1942 does not change the provisions of the law allowing individuals to deduct contributions to educational, charitable, and similar institutions in computing their incomes subject to regular income tax. Contributions not exceeding 15 percent of the individual's net income may be deducted in determining the income subject to tax.

In the past the great majority of taxpayers have contributed only a small portion of the 15 percent permitted them. Consequently, there is ample opportunity for most taxpayers to increase their contributions within the limits of the present law. Moreover, with increasing tax rates the net cost of contributions to the taxpayer decreases.

Contributions are not deductible, however, in computing the income subject to Victory Tax which becomes effective January 1, 1943. The Victory Tax is levied at a flat rate of 5 percent, but certain credits are allowed, which substantially reduce the tax. I do not believe that the denial of the deductibility under the Victory Tax should prove a serious deterrent to contributions.

The Executive Order and regulations limiting salaries to \$25,000 after taxes may affect increases in contributions. However, it is provided that if the income from all sources is insufficient to permit customary contributions to educational and similar institutions without undue hardship, salaries in excess of the limit may be paid.

I hope this information will be helpful to you. If you should have further questions, I trust that you will write to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Frank C. Foster
President, Asheville College
Asheville, North Carolina

mm
VJ
GEM: [unclear]
12-24-42

FILE COPY

9
Mr. Park
THE WHITE HOUSE
WASHINGTON

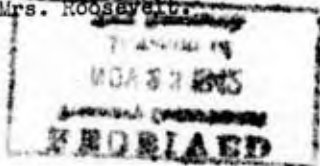
November 20, 1942.

through
My dear Mr. Secretary:

Mrs. Roosevelt has asked me to send you the enclosed copy of a letter from Dr. Frank C. Foster, President of Ashville College, Ashville, North Carolina. She will appreciate it very much if you will send Dr. Foster an opinion on the matter he mentions.

Very sincerely yours,

Maerina C. Thompson
Secretary to
Mrs. Roosevelt.



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

C
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Y

92

Inclosure to letter
Melvin C. Johnson
dated 11-20-42

ASHEVILLE COLLEGE
ASHEVILLE, NORTH CAROLINA

November 11, 1942

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

Dear Mrs. Roosevelt:

I have written to Mr. Baruch about the possibility of coming on Thanksgiving Day but so far have had no reply.

A problem arose today about which I am anxious to get information since it seriously affects our efforts to secure funds for the next year. Our Finance Committee reopened the year with the fear that we would be unable to find the help we needed because of the war conditions. Now I find some of the donors are fearful that the present tax law will not allow them to increase contributions to any philanthropies which they have supported in the past, or to alter their pattern of giving. If this is the case, we would be seriously penalized since we have no constituency to whom to appeal.

Do you know to whom we could write to find out what the facts are regarding gifts to philanthropic institutions such as ours.

I am sorry to trouble you again, but your help has been so inspiring in the past we cannot refrain from writing again.

Sincerely yours,

/s/ Frank C. Foster
President

Dictated by Dr. Foster but signed in his absence.
HY

C
O
P
Y

92

Inclosure to letter
Melvin C. Hillman
dated 11-28-42

ASHEVILLE COLLEGE
ASHEVILLE, NORTH CAROLINA

November 11, 1942

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

Dear Mrs. Roosevelt:

I have written to Mr. Baruch about the possibility of coming on Thanksgiving Day but so far have had no reply.

A problem arose today about which I am anxious to get information since it seriously affects our efforts to secure funds for the next year. Our Finance Committee re-opened the year with the fear that we would be unable to find the help we needed because of the war conditions. Now I find some of the donors are fearful that the present tax law will not allow them to increase contributions to any philanthropies which they have supported in the past, or to alter their pattern of giving. If this is the case, we would be seriously penalized since we have no constituency to whom to appeal.

Do you know to whom we could write to find out what the facts are regarding gifts to philanthropic institutions such as ours.

I am sorry to trouble you again, but your help has been so inspiring in the past we cannot refrain from writing again.

Sincerely yours,

/s/ Frank C. Foster
President

Dictated by Dr. Foster but signed in his absence.
HY

November 25, 1942

I told Norman Thompson at seven-ten Tuesday night please to get out a wire to all Treasury employees that we would close at noon on Thanksgiving.

NOV 25 1942

P:PPR:mog

My dear Mr. President:

It is respectfully requested that Internal Revenue Agent Attilio F. Porcelli, \$3800, CAF-11, Income Tax Unit, Bureau of Internal Revenue, be deferred from induction into the military service for the following reasons.

Agent Porcelli is approaching his forty-second year and is married. He has been assigned as an Internal Revenue Agent since 1935 and has been engaged for the past several months in the audit and examination of the books and records of the E. I. duPont de Nemours Company, Wilmington, Delaware, as the result of a claim filed by that company under Section 722 of the Internal Revenue Code, as amended by Section 6 of the "Excess Profits Tax Amendments of 1941", which claim involves a request for a refund of \$6,500,000.00.

The position occupied by this employee is included on the list of key positions established in accordance with Paragraph II of War Manpower Commission, Directive No. XI for which occupational deferment was considered to be justified.

On November 12, 1942, his Selective Service Board in Wilmington, Delaware, notified Agent Porcelli that he had been reclassified in 1-A.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

File to Mr. Thompson

By Harmon 1:08 11/25/42

CC in Diary

NOV 25 1942

Dear Henry:

I am in receipt of a letter dated November 10, 1942, from Mr. Melvyn Douglas, of the Office of Civilian Defense, expressing an interest in the development of a Stage Door Canteen in San Francisco, and pointing out that this Department has under its jurisdiction space in the recently acquired Empire Hotel Building in San Francisco which would be suitable for this purpose.

I have had a representative of my office survey such possibilities and am informed that the request of Mr. Douglas can be complied with without serious inconvenience to either the War or Treasury Departments. However, the space in question will involve some rearrangement of your Ordnance Field Office situated in that building.

I cannot praise too highly the commendable efforts of the American Theatre Wing, Incorporated, who operate the Stage Door Canteens in our principal cities. The few hours of happiness accorded our service men at these canteens seem deserving of our earnest consideration and some possible slight inconvenience.

Might I suggest that a member of my administrative office, Mr. Charles Bell, who has recently returned from San Francisco, call personally upon the Chief of Ordnance, Major General Charles M. Wesson, with a view to concluding certain necessary details incident to the establishment of this Canteen.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,

The Secretary of War.

CC in Diary

Copies to Thompson

CSB:em

(Copy of this letter sent to
Melvyn Douglas)

NOV 25 1942

Dear Mr. Douglas:

With further reference to your letter of November 10, 1942, relating to the establishment of a Stage Door Canteen in the Empire Hotel Building at San Francisco, you are advised that the space thought appropriate for this purpose will require some reassignments of office locations involving both the War and Treasury Departments.

In this respect I have written the Secretary of War and should be in a position to advise you more fully in the immediate future.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Melvyn Douglas,
Office of Civilian Defense,
Washington, D. C.

CC in Diary

File to Thompson

(Copy of letter to Stimson
re this matter sent to Douglas)

CSB:em
11-24-42

NOV 25 1942

Dear Mr. Copeland:

I have your letter of November 11, 1942, concerning the return to your office of the back copies of the report entitled "War Progress". This report has been very useful to me and for the present I should like to retain in the Treasury copies numbered 71 through 112, which cover the period from January 23, 1942 to November 13, 1942. I shall be glad, however, to return copies numbered 27 through 62, and shall turn them over to the representative of the Courier Service of the War Production Board whenever he calls.

For your records, I should like to advise that copies of "War Progress" are kept in a combination-locked safe when not in use.

Very truly yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

Mr. Morris A. Copeland
Chief of Munitions Branch
Statistical Division
War Production Board
Washington, D. C.

SGT:man
GCH:ek

 FILE COPY

WAR PRODUCTION BOARD

WASHINGTON, D. C.
November 11, 1942

IN REPLY REFER TO:

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Room 280, Treasury Building
Washington, D. C.

Dear Mr. Morgenthau:

In accordance with the regulations drawn up at the last meeting of the Committee on Distribution of War Progress, it is planned to pick up all back copies of War Progress with the exception of the six most recent issues. With a view to holding each recipient's file to six issues, the oldest copies in your file will be picked up each time a new issue is delivered.

According to our records, your file contains the following issues:

27 through 62 - issued to Mr. Haus, 71 through 112

The regulations call for the pick-up of all issues except the last six at this time. If any of these is missing, a careful search should be made. In the event the search fails, you are requested to write this office, indicating the number of the missing issue and explaining its absence.

Should you desire to retain your complete file, a request in writing must be made to this office. This request should include a record of all copies of War Progress now in your possession and should indicate whether the copies are maintained in a locked filing cabinet or safe at all times except when in use. If permission is granted to retain a back file, a similar report must be made every quarter hereafter.

A representative of the Courier Service of the War Production Board will visit your office to pick up the back issues in the near future. We will appreciate your cooperation in this matter.

Sincerely yours,


Morris A. Copeland

NOV 25 1942

My dear Mr. President:

I am enclosing report on our experts to some selected countries for the period ending November 10, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,
The White House.

Enclosure

HDW/efs
11/21/42

By Harmon 1:08 11/25/42

Extra copies to White's office

File in Diary

HDW
FILE COPY

November 23, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending November 10, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending November 10, 1942 amounted to \$53,144,000. Military equipment accounted for \$19,251,000 of the total and included three light bombers, 58 fighter planes and 20 tanks. (See Appendix C.)

2. Exports to Free China

Exports to Free China reported during the period under review amounted to \$233,000 of which \$221,000 was military equipment. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Spain amounting to \$9,000.

ISF/efs
11/23/42

APPENDIX A

Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations Received
During the Period Indicated ^{1/}

(In thousands of dollars)

	10-day Period ended Nov. 10, 1942	11-day Period ended Oct. 21, 1942	Total Domestic Exports Aug. 1, 1942 to Nov. 10, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$ 53,144	\$ 45,702	\$ 418,999	\$ 742,941
Yee China	233	—	7,166	97,720
Spain	9	361	766	2,858
Switzerland	2	2,724	4,251	11,537
Sweden	1	—	2,626	18,056
Portugal	—	211	796	9,743
French North Africa ^{2/}	—	—	2,088	6,305

Treasury Department, Division of Monetary Research

November 21, 1942

^{1/} Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

^{2/} Includes Morocco, Algeria and Tunisia.

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - November 10, 1942 1/
(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>U.S.S.R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	--	45,701
Nov. 1 - Nov. 10	233	53,144
Total	\$ 107,489	\$1,162,759

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research November 20, 1942
ISF/efs
11/20/42

APPENDIX G

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
November 10, 1942

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
TOTAL EXPORTS			\$ 53,144
<u>Military Equipment (\$19,251)</u>			
Ammunition	-	-	5,232
Aircraft			4,364
Light bombers (2 eng. A-20)	No.	3	
Fighters (1 eng. P-39)	No.	10	
Fighters (1 eng. P-40)	No.	48	
Aircraft parts and accessories	-	-	4,028
Ordnance combat vehicles	-	-	2,486
Scout cars	No.	2,534	
Armored cars, medium	No.	36	
Ordnance combat vehicles, n.e.s.	No.	28	
Military tanks			1,040
Light tanks (M-3, M3A1, M-5, & T7)	No.	10	
Medium tanks (M4A-2)	No.	10	
Explosives	Lb.	2,419,519	957
All other	-	-	1,144
<u>Non-Military Goods (\$33,893)</u>			
Industrial, electrical, and agricultural machinery & parts	-	-	8,413
Metals and manufactures, n.e.s.	-	-	4,838
Iron and steel manufactures, and semimanufactures	-	-	4,828
Motor trucks, motorcycles & parts	-	-	4,645

Appendix C (Continued)

Page 2

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
Meat products	-	-	2,660
Aluminum and manufactures	-	-	2,054
Chemicals and related products	-	-	1,664
Relief supplies	-	-	1,037
All other	-	-	3,754

Treasury Department, Division of Monetary Research November 21, 1942

EFM/efs 11/21/42

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
November 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 233
Principal Items:	
Military equipment	221
Automobile replacement parts	10
Casings and tubes	1
Mica and manufactures	1

Treasury Department, Division of Monetary Research November 21, 1942

EFM/efs 11/21/42

NOV 25 1942

My dear Mr. Secretary:

I am enclosing report on our exports to some selected countries for the period ending November 10, 1942.

Sincerely yours,

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

The Honorable,
The Secretary of State.

Enclosure

By Harmon 1:08 11/25/42
Extra copies to White's office
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HDW
HDW/ea
11/21/42

FILE COPY

November 23, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending November 10, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending November 10, 1942 amounted to \$53,144,000. Military equipment accounted for \$19,251,000 of the total. (See Appendix C.)

2. Exports to Free China

Exports to Free China reported during the period under review amounted to \$233,000 of which \$221,000 was military equipment. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Spain amounting to \$9,000.

ISF/ers
11/23/42

APPENDIX A

Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations received
During the Period Indicated 1/

(In thousands of dollars)

	10-day Period ended Nov. 10, 1942	11-day Period ended October 21, 1942	Total Domestic Exports Aug. 1, 1942 to Nov. 10, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$ 53,144	\$ 45,701	\$ 418,999	\$ 742,941
Free China	233	—	7,166	97,720
China	9	361	766	2,858
Switzerland	2	2,724	4,251	11,537
Sweden	1	—	2,626	18,056
Portugal	—	211	796	9,743
French North Africa 2/	—	—	2,088	6,305

Treasury Department, Division of Monetary Research

November 21, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.

WU/efs 11/21/42

APPENDIX B

Exports from U. S. to Free China and U. S. S. R.
as reported to the Treasury Department
July 28, 1941 - November 10, 1942 1/
(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>U. S. S. R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
1942		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	--	45,701
Nov. 1 - Nov. 10	233	51,144
Total	\$ 107,489	\$ 1,162,759

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research November 20, 1942

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APPENDIX G

Principal Exports from U. S. to U.S.S.R.
as reported to the Treasury Department
during the ten-day period ending
November 10, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 53,144
Principal Items:	
Military equipment	19,251
Industrial machinery and parts	6,627
Motor trucks, motorcycles and auto replacement parts	4,645
Iron and steel bars, sheets, wire, etc.	4,095
Aluminum and manufactures	2,054
Brass and bronze bars, plates, wire, etc.	1,760
Copper plates, sheets, wire, pipes, etc.	1,746
Canned pork	1,190
Canned sausage	1,170
Relief supplies	1,037
Mercury, molybdenum ore, cerium and cobalt and other metals and alloys	915
Electrical machinery and apparatus	929
Dried egg products	892
Coal tar products	884
Agricultural machinery and parts	857
Industrial chemicals and chemical specialties	780
Hand tools	733
Abrasives, graphite, carbon, asbestos, etc.	602
Leather and manufactures	592
Rubber and manufactures	515
Cotton, wool, other textiles and products	426
Lead, nickel, tin, zinc and manufactures	417
Meat products, n.e.s.	300
Scientific and professional instruments and supplies	234
Paper and manufactures	133
Petroleum and products	112

Treasury Department, Division of Monetary Research November 21, 1942

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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
November 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS **\$ 233**

Principal Items:

Military equipment	221
Automobile replacement parts	10
Casings and tubes	1
Mica and manufactures	1

Treasury Department, Division of Monetary Research November 20, 1942

EPA/efs
11/20/42

NOV 25 1942

My dear Mr. Minister:

This is to acknowledge your letter of October 29, 1942, enclosing a report on the financial situation of the Greek Government and the position of the Bank of Greece.

Your courtesy in making this information available to the Treasury is appreciated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable K. Varvareas,
Minister of Finance,
Kingdom of Greece,
8, Aldford House,
Park Street,
London, W. 1., England.

By Harmon 1:08 11/25/42 to
State Dept. (via Diplomatic Pouch)

Original file to Thompson

Photo file in Diary

RDW:ALN:dah
11/24/42.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
DATE November 24, 1942

FROM H. D. White *HDW*

Subject: Financial Position of the Greek Government and the Bank of Greece.

There is appended a letter to you from the Greek Minister of Finance, Mr. K. Varvaressos, and a detailed statement of the Greek financial position.

The Greek Minister of Finance refers to a request of the Greek Government to the United States "for financial assistance to the Greek Government to enable it to meet obligations which they have undertaken, principally in respect of the Greek armed forces." There is appended a summary of the Greek Minister's report on the financial system.

The report indicates that the Greek Government has enough funds to take them through next Spring but not enough thereafter. They expect a deficit in 1943 of \$10 million. The British Government has agreed to provide them with material necessary for the arming, equipment and maintenance of the Greek armed forces.

However, the report also shows that the Bank of Greece has very substantial assets, about £60 million of sterling and about \$28 million of gold and \$9 million of U. S. dollars. So far as we know, the Bank of Greece is not owned by the Government. However, even so, under the circumstances, it would seem that if the Greeks need \$10 million of cash assistance, they might consider obtaining it from their own central bank, particularly since most of their expenditures are probably not in dollars.

I don't think it is necessary at this time to take a definite position with respect to the Greek request. We might wait until they approach us again on the subject.

There is appended a letter of acknowledgment for your signature.

Financial Position of the Greek Government
and the Bank of Greece

1. On September 1, 1942 the Central Bank and Government of Greece together held a total of about \$185 million of gold and foreign exchange assets, as follows:

(In millions)		
Gold	\$ 28.0	
U.S. dollars	9.3	
Sterling	141.4	
Sterling and U.S. dollars	<u>7.6</u>	\$186.3

Only \$7.6 million of these assets are held by the Greek Government; the remainder, including all the gold, are held by the Central Bank and are considered by the Government as unavailable to it. The Government argues that the Bank's holdings should be maintained intact in order to meet post-war contingencies.

The \$140 million of sterling held by the Bank (or roughly four-fifths of its total assets) consists primarily of proceeds of sterling credits granted before the fall of Greece by Britain to the Greek Government for war expenditures within Greece.

Greece succeeded in rescuing her entire gold reserve before the invasion. Of the total, \$21 million was transferred to the Union of South Africa; the remainder is held in the United States.

2. During the first 16 months of exile the Greek Government spent roughly \$23 million for the following purposes:

(In millions)		
For the Armed Forces	\$ 11.2	
For supplies previously ordered	6.5	
For other purposes including relief	<u>5.2</u>	\$ 22.9

These expenditures were met out of:

Revenue from the Merchant Marine	\$ 5.7	
Balance of credits granted by Britain	22.8	
Funds held by Greek Legation in Washington	<u>2.0</u>	\$ 30.5

This leaves a balance (as given above) of \$ 7.6

- 2 -

3. The Greek Government forecasts an excess of expenditures over receipts, for the next 19 months, of at least \$18 million. Against this excess it holds \$7.6 million of sterling and dollars, leaving an estimated \$10.5 million of expenditures to be provided for.

	(In millions)	
	Sept. 1942 to March 1943	April 1943 to March 1944
Expenditures (principally salaries for the Armed Forces)	\$ 11.0	\$ 18.6
Revenues (levies on Greek merchant ships)	<u>4.2</u>	<u>7.3</u>
Excess of expenditures over receipts	\$ 6.8	\$ 11.3
Balance on hand at beginning of period	<u>7.6</u>	<u>.8</u>
Balance or deficit (-) at end of period	\$.8	\$-10.5

4. The British Government has undertaken, by agreement of March 9, 1942, to provide without reimbursement all material necessary for the arming, equipment and maintenance of the Greek Armed Forces.

Prior to the occupation of Greece, British assistance to Greece had taken the form of grants of credit to finance war expenditures in various areas. They totaled \$187 million, as follows:

	(In millions)	
In the Sterling Area	\$ 40.4	
Outside the Sterling Area	5.0	
Within Greece	<u>141.4</u>	\$186.8

OF GREECE
OF FINANCE

TEL: 8866
9, ALDFORD HOUSE,
PARK STREET,
LONDON, W.1.

29th October, 1942

Your Excellency,

During our conversation on the 27th October you were so good as to say that I might forward you a copy of a report which we are submitting, through our Ambassador at Washington, to the Department of State.

As I mentioned to you at the time, the Greek Government addressed a request to your Government to the effect that, if possible, the United States Government should agree to afford financial assistance to the Greek Government, to enable the latter to meet the obligations which they have undertaken, with the valuable support of the British Government principally in respect of the Greek Armed Forces,

In reply to this request, the United States Department of State has asked us to submit the detailed particulars, which are contained in the afore-mentioned report.

Permit me to express to Your Excellency my gratitude for the sentiments of sympathy and appreciation which you have demonstrated towards my country in its present struggle as also for your courteous assurance that, when the matter in question comes before the competent Departments of the United States Treasury, it will meet with favourable and sympathetic consideration.

Yours sincerely



His Excellency the
Secretary of the
United States Treasury
Henry Morgenthau, Junior.

R E P O R T

CONCERNING 1) THE PRESENT FINANCIAL SITUATION OF
THE GREEK GOVERNMENT NOW ESTABLISHED IN LONDON,
2) THE OUTLOOK FOR THE FUTURE AND 3) THE
POSITION OF THE BANK OF GREECE AND ITS ASSETS.

I. STATEMENT OF THE FINANCIAL RESOURCES AT THE
DISPOSAL OF THE GREEK GOVERNMENT FROM 23 APRIL 1941
UNTIL 31 AUGUST 1942,

At the moment when the Greek Government was compelled to leave Greece it had at its disposal abroad the following funds to meet the expenditure which it was undertaking for the purpose of continuing the struggle:

- a) £4,417,000.- balance of a credit of £10,000,000 granted by the British Government to the Greek Government at the beginning of the Græco-Italian war to meet war expenditure incurred outside Greece, and, in particular, for the payment of war material purchased within the Sterling area. The difference, amounting to £5,583,000 between the total credit of £10,000,000, and the aforementioned balance had been expended by the Greek Government before the enemy invasion of Greece.
- b) £4,975,000.- (i.e. £1,235,000.-) which the British Government likewise made available to the Greek Government for payment of the value of war material purchased outside the Sterling area.

Thus, at the time of its departure from Greece the Greek Government had at its disposal the sum of £9,652,000 from the above mentioned credits granted by the British Government.

After the seat of Government had been established outside Greece, and more particularly after it had been established in London, the Greek Government created the following sources of revenue:

- a) it imposed taxation on Greek merchant ships with retrospective application from April 1941. Up to the 31st August 1942 this had yielded £415,000.-. Unfortunately, this will of necessity be a progressively declining source of revenue, by reason of the continuing heavy losses sustained by the Greek Mercantile Marine; these losses now amount to 60% of its pre-war strength.
- b) by means of a legislative measure it enacted that any difference between the freight paid by the British Government, on the basis of the time-charter agreement, and any other higher freight actually realised by a Greek ship, from any cause whatsoever, shall constitute public revenue, and, as such, be assigned to the needs of the State.

This arrangement also had retrospective application from April 1941. The sums, however, collected from this source up to the end of November 1941 were by law set aside in fulfilment of the obligations undertaken by the Greek State in connection with the insurance scheme which it had established. Losses were sustained on account of the fact that very many of the Greek ships insured under the scheme were lost in the course of the occupation of the country by the enemy.

At the present moment there is only a very small number of ships in respect of which the above-mentioned item of revenue (from difference in freight) can accrue. Certain arrangements have, however, been made ensuring that, under certain conditions, this item of revenue will be retained in Public Funds as long as the ships in this category (which in the past were trading on the

market) survive. The revenue collected from this source
Public Funds (after deduction of the sums required) in ful-
fillment of obligations under the insurance scheme, as mentioned
(above) is reckoned at £1,000,000 up to the 31st August 1942.

To the above sums must be added one of £2,500,000,-
(approximately \$500,000,-), being the unutilized balance of a
remittance from the Greek Government to the Greek Legation at
Washington, made prior to the enemy invasion and intended for the
purchase of supplies.

Thus, the total of the funds both capital and revenue,
which the Greek Government had at its disposal from the date of
its departure from Greece until the 31st August 1942 amounted to
£7,567,000.- Out of these available funds, however, a sum of
£1,610,000 was expended in payment of the value of supplies which
though ordered by the Greek Government before the enemy occupation
of the Country, fell due for payment after the Government's depart-
ure from Greece.

Consequently, the actual amount of funds available to the
Greek Government in the period up to 31st August 1942, for meeting
public expenditure was £5,957,000.-

11. Greek Government Expenditure from
23 April 1941 to 31 August 1942.

Against the aforementioned assets expenditure incurred by
the Greek Government from the date of its departure from Greece
up to 31 August 1942 amounted to a total of £5,957,000.-

It should be noted that this figure does not include ex-
penditure of the Ministry of Marine for the period April-August
1942, nor that of the Air Ministry for the month of August, as

relative accounts have not as yet been made up.

The apportionment of the above total is as follows:

Ministry of War	£1,355,100
" " Marine (up to March 1942)	727,200
" " Air (up to July 1942)	202,400
" " Foreign Affairs (Ambassies, Legations and Consulates)	362,000
" " Mercantile Marine (including expenditure for ships chartered to the Greek Government.)	293,300
Revictualling and Relief of Refugees	442,000
Fixed charges:- Royal Household, Pensions etc.,	104,000
Other Administrative expenses	91,000
Total	<u>£3,522,000.</u>

After deduction of the above figure of total expenditure from the afore-mentioned total of assets, amounting to £5,957,000 there remained a balance at the disposal of the Greek Government on the 31st August 1942 of £2,375,000. This sum will, however, be reduced by at least £500,000 when the deferred payments for account of the Ministries of Marine and Air have been effected up to the 31st August.

Thus the balance available to the Greek Government at 1st September 1942 may be reckoned at approximately £1,875,000.

III. ESTIMATES FOR THE IMMEDIATE FUTURE.

A. - Estimates of Expenditure

The estimate made at the beginning of the current year regarding expenditure in the financial year 1942-43 (April 1942 - March 1943) had to be radically revised on account of the heavy increase in expenditure on the fighting services. This increase is attributable to the substantial growth in the numbers of our armed forces in the Middle East. There has been, and still is a steady flow of new recruits - both officers and other ranks - to the Army, Navy and Air Force. Hence the estimates for the current financial year 1942-43 are as follows:-

1 April 1942 - 31 March 1943.

Ministry of War	£1,480,000
" Navy	1,100,000
" Air	300,000
" Foreign Affairs	200,000
Fixed Charges: (Royal Household, Residences etc.,)	50,000
Ministry of Mercantile Marine (including expenditure for ships chartered to the Greek Government)	200,000
Other Administrative expenses	100,000
Total	<u>£3,600,000.</u>

As is shown below, in the section dealing with the financial assistance afforded by the British Government, the above estimates

Expenditure for account of the Armed Forces include only cash disbursements for salaries and allowances, for which the Greek Government is liable. No expenditure for material of any kind is included therein, inasmuch as, by the Agreement referred to below, the British Government undertook to supply such material to our armed forces.

To this expenditure should be added the probable expenditure on the partial re-equipment of Greece up to the limit allowed by the Great Allied Powers, as well as the necessary expenditure on relief for the refugees escaping from Greece.

The heavy financial burden of despatching foodstuffs to Greece is lightened for the Greek Government (a) by the Canadian Government's generous gift of 15,000 tons of wheat monthly, which are allowed to be shipped to Greece, (b) by the splendid work of the Greek War Relief Association in U.S.A., a work which enjoys the moving and whole-hearted support of the American people, (c) by the liberality of the United States Government which has promised to supply on Lease-lend terms foodstuffs and other commodities the importation of which into Greece may be permitted, (d) by the support given by the British Government and British people, and (e) by the assistance forthcoming from various International Organisations, in particular the International Red Cross, Swiss Red Cross, Swedish Red Cross.

The Greek people cannot ever forget the warm-hearted support, moral and material, which it has received from these Governments and Organisations; and it will ever recall with gratitude the splendid spirit of solidarity which, at the moment of its suffering, all nations with a high standard of moral civilisation showed towards it.

But, as in the past so too in the future, the Greek Government

of necessity share in the expenses of despatching foodstuffs to the Greek people. Likewise, it will bear the cost of relief for refugees escaping from Greece.

It is clearly impossible to make an exact estimate of such expenditure. Nevertheless, the experience of the past few months combined with an examination of certain obligations which have already been undertaken leads one to envisage an expenditure of not less than £1,000,000.

Thus, for the financial year 1942-43 the total of the outgoings which it is possible to foresee with any degree of certainty will probably amount to the sum of £4,800,000. Of this sum £1,890,000 have already been spent in the five months 1 April - 31 August 1942 (the figure includes expenditure of the Ministries of Marine and Air entered at £500,000, the accounts of which as mentioned above, have not yet been made up). It follows, therefore, that a sum of £2,720,000 falls for expenditure in the remainder of the financial year i.e. the seven months 1 September 1942 to 31 March 1943.

B. - Estimated Receipts.

The resources which may be anticipated to be available to the Greek Government during the same period from 1 September 1942 to 31 March 1943 are reckoned to be the following:-

- a) The afore-mentioned balance of earlier funds, viz. £1,875,000.
- b) The proportion of taxes imposed upon Greek ships, and of the difference of freight collected for account of Public Revenue, as detailed above.

The amounts accruing in a full year are reckoned at £300,000 from taxes, and £1,500,000 from difference of freight, i.e. a total

Revenue from these sources of £1,800,000. Hence for the period up to the end of the financial year (seven months, 1/9/42 - 31/8/43) the proportion of revenue from these sources amounts to £1,050,000.

Consequently the total of resources at the disposal of the Greek Government up to the end of the financial year may be estimated at £2,925,000 against expenditure, as estimated above, of £2,720,000.

At the same time, it should be borne in mind that the attainment of these figures of revenue as a whole is a matter depending on the extent of the losses sustained by our Mercantile Marine. As already pointed out, Taxation and difference of freight depend on the number of vessels surviving. Heavy losses would inevitably entail a reduction in revenue from this source.

On the other hand, the corresponding expenditure up to the end of the financial year has been estimated at £2,720,000. This estimate, however, rests on the assumption that no events will occur calling for any considerable increase in expenditure, such as (to name the principal items) a growth in the numbers of our Armed Forces or in the re-equipping or refugee relief requirements. Yet such increases are extremely probable, and, if occurring would certainly wipe out the small margin of £200,000 between revenue and expenditure shown in the above estimates.

The conclusion to be drawn from the above is that, if the Greek Government has hitherto been able, and will, in all probability, be able, up to the end of the financial year (31.3.43) to meet expenditure, this is due to the fact that it had at its disposal the afore-mentioned funds from earlier credits; as appeared above, these sums totalled £4,542,000 (total of sums available up to 31 August 1942 £5,957,000 less taxes and difference of freight £1,415,000 leaving a balance of funds available, derived from earlier credits, of £4,542,000).

Unfortunately, however, by the 31 March 1943 these funds have been wholly exhausted, as clearly emerges from the foregoing account.

Hence the estimates for the following financial year (April 1943 - March 1944) will be:

Receipts: £1,300,000. (on the assumption that the losses of our merchant ships will not be such as seriously to reduce this amount)

Expenditure: certainly in excess of the figure of £4,600,000 estimated for the current financial year.

IV. FINANCIAL ASSISTANCE FROM THE BRITISH GOVERNMENT.

From the very beginning of the Greco-Italian War the British Government gave the fullest measure of financial assistance to Greece. This consisted in the granting:

- 1) of the credits referred to on the first page of the present Report under (a) and (b).
- 2) of further substantial credits which the British Government had granted to the Greek Government in monthly instalments, for the purpose of meeting war expenditure within Greece. The amount of these credits totalling £35,000,000, had been wholly utilized by the Greek Government in Greece in drachmas which it acquired by the sale of the aforesaid sterling amount to the Bank of Greece.

But the financial assistance afforded by the British Government did not cease with the occupation of Greece by the enemy.

By an agreement dated the 9th March 1942 between the British and Greek Governments, "concerning the organisation and the employment of the Greek Armed Forces", His Britannic Majesty's Government undertook to provide all material necessary for the arming, equipment and maintenance of the Greek Armed Forces, and to make no

claim on the Greek Government for reimbursement of the cost so incurred. The Greek Government for its part undertook to return to the Government of the United Kingdom on the cessation of the hostilities in which the Greek Forces are participating such of the war material and other supplies in question as would be still under their control and as the Government of the United Kingdom may request them so to return.

As a consequence of this Agreement the Greek Government bears all expenditure for the General Administration of public affairs, and, in respect of the Fighting Services, all cash payments for salaries and allowances for the officers and other ranks of our armed forces, while the British Government bears the expenditure for all material and supplies required for the training, equipment and maintenance of the Greek Armed Forces.

At the date of signature of this Agreement the Greek Government had envisaged neither the tremendous increase in Services expenditure arising from the growth in the numbers of our armed forces, nor the great cost of the re-equipment programme.

The Greek Government hoped that the funds available at that time, together with the revenues provided by the mercantile marine, would suffice to meet the expenditure undertaken by it for a relatively long period of time, which it then estimated, somewhat optimistically, at about two years.

But expenditure, as estimated at that date, had almost doubled viz. it has increased by £2,000,000 through the growth of the armed forces and the re-equipment requirements. In consequence the available funds will be exhausted during the current financial year, and the Greek Government's assets for meeting the increased expenditure of the financial year 1st April 1943 - 31 March 1944, will be limited merely to the receipts from the Mercantile Marine, as detailed above.

V. ASSETS OF THE BANK OF GREECE.

The Bank of Greece was established in the year 1928 as an independent issuing Bank, in the form of a Limited Liability Company, in fulfillment of the Geneva Protocol of 1927. This protocol embodied among other things, the programme of monetary and banking reorganisation which had been worked out by the Financial Committee of the League of Nations in conjunction with the Greek Government, and which was introduced in Greece immediately thereafter. The principal measure envisaged by this programme was the creation of an autonomous Central Bank, possessing the exclusive right to issue bank-notes. The Administration, Management and functioning of the Bank are free from State intervention. The State has the right to inquire only into the legality of the Bank's acts and decisions.

In the year 1932 the Bank of Greece acquired by law the exclusive right to buy and sell gold and foreign exchange.

This right could be granted to other reorganized Banks also on the recommendation of the Bank of Greece, but such Banks were obliged to hand over to the Bank of Greece any difference between purchases and sales of foreign exchange.

On the other hand, anyone exporting goods from Greece was obliged to hand over the resultant foreign exchange against the equivalent in drachmas to the Bank of Greece or to one of the above mentioned Banks, which were, in their turn, obliged to transfer it to the Bank of Greece after fulfilling their obligations.

In general, anyone importing foreign exchange into the country and wishing to obtain drachmas was obliged to sell it to the Bank of Greece, according to the above procedure.

In like manner, if the State held foreign exchange abroad and wished to obtain an equivalent amount of drachmas in Greece

ought to sell such exchange to the Bank of Greece.

Thus the Bank of Greece was the institution which concentrated in its hands all the foreign exchange assets of the country which the holders imported (either in order to conform with a legal obligation, or voluntarily) in order to obtain an equivalent amount of National currency.

The foreign exchange so acquired was sold by the Bank of Greece, against its equivalent in drachme, to persons having lawful payments to make in foreign countries.

Shortly before the enemy invasion the Bank of Greece had succeeded in safeguarding the whole of its gold reserve. It was transferred, first to Crete, later to Egypt and finally to South Africa.

By virtue of a Law issued in Crete the Bank of Greece accompanied the Greek Government on the latter's departure from Greece and establishment abroad; the Bank's headquarters were transferred to the country in which at any given time the Greek Government would have its seat, and the Bank, of course, took control of its gold and foreign exchange assets lying outside Greece.

These assets (which have undergone only very slight alteration since that date) consist of the following items:-

<u>a) Gold.</u>		
In the United States of America		o. s. 191,000.
In the Union of South Africa		" 6,350.
	Total	<u>o. s. 197,350.</u>
 <u>b) Sterling.</u>		 <u>50,000,000.</u>
 <u>c) U.S. Dollars.</u>		 <u>1,000,000.</u>

The amount of the assets is higher than it would ordinarily have been in normal circumstances. It should, however, be stressed that this accumulation of foreign exchange does not result from the

normal process of exchange of goods and services with foreign countries, but in due to wholly exceptional conditions. From the beginning of the present war in 1939, and more particularly, from the time of its extension to the Mediterranean the import of all kinds of goods required in Greece had been severely restricted. The control on the part of the belligerents of the production and supply of the principal commodities, the serious difficulties of sea transport, on which the provisioning of Greece depends, and the imposition of blockade by sea, which necessarily led to the control and restriction of imports even into the neutral countries of Europe had as their result that, even should it be desired, Greece was unable to utilize her foreign assets for the purpose of satisfying the great needs of the population in the existing demand either in foodstuffs or other consumption goods or in raw materials, machinery or other production goods. Thus the Bank's assets while increased through the Greek Government's selling to it, in exchange for drachmas, a large part of the credits granted by the British Government, as mentioned above, could not be utilized for the purpose for which they were intended, and therefore accumulated at the Bank.

On the other hand, the quantities of national currency representing the equivalent of these assets remained in circulation and thus created even at that time inflationary conditions.

There is no need to point out that since the enemy occupation of the country imports of consumption or production goods necessary to the population and to the country's economy have almost entirely ceased.

It is obvious that the restricted provisions of the Greek people and the terrible destruction of the country's wealth - machinery, tools, raw materials, buildings, etc., generally, every stock and every productive asset - will, at the end of the war, create an enormous demand for goods from other countries, and that

It will be impossible for even a small part of this demand to be met through the exporting capacity of a ruined economy.

Consequently, on the cessation of hostilities, the Bank of Greece will be faced with the following tasks:-

- a) Together with the international action of assistance to the countries which have suffered from protracted enemy occupation, the Bank will have to satisfy, within limits, the purchasing power of the population by granting foreign exchange against drachmas for the purpose of providing from other countries the consumption and production goods for which there will be an enormous demand and of which the country will have been deprived.
- b) By means of adequate reserves it will have to restore and safeguard the national monetary system, which together with the whole economy of the country will have been completely dislocated in the course of the country's occupation by the enemy.

It is only in this way that the country's economy can return to some form of normal functioning and thereby be enabled to confront the hard task of reconstruction.

Greece's recent monetary history shows that even reserves regarded as adequate may soon be exhausted if abnormal conditions would occur. In December 1928 that is at the end of the year in which the country's monetary and banking system was radically reorganized, the Bank of Greece's net reserves in gold and gold exchange amounted to 66,000,000 gold dollars. This fact did not prevent these reserves from falling in April 1932 to 11,000,000 dollars, nor did it prevent the serious monetary crisis which caused the abandonment of the gold standard and a return to a paper currency.

London, 15th October 1942.

The Minister of Finance.

K. Vervopoulos.

November 25, 1942

TO: Dr. White
FROM: The Secretary

On the Greek matter, I am not going to do anything about it unless you speak to me personally.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 411

Information received up to 7 A.M., 25th November, 1942.

1. NAVAL

NORTHERN WATERS. 24th. The fourth and last of the independently routed ships from NORTH RUSSIA reached ICELAND (C). See OPTEL No. 410.

MEDITERRANEAN. 22nd/23rd. A 1,900 ton ship, previously damaged by our aircraft, was sunk by gunfire of a submarine southeast of SARDINIA.

2. MILITARY

LIBYA. Our troops entered JEDABYA on 23rd and had advanced 16 miles further south by evening 24th.

FRENCH NORTH AFRICA. Enemy reinforcements continued to arrive in TUNISIA. Concentration of First Army units on forward area is proceeding by ship, rail and road.

RUSSIA. Russian attack southward from KLETSKAYA area has penetrated in places to a depth of nearly 50 miles west of KLETSKAYA, a considerable Rumanian force is encircled.

FRANCE. Now estimated that 10 - 12 German Divisions, including 3 Armoured Divisions, have moved into VICHY FRANCE in addition to the 3 Italian Divisions reported in OPTEL No. 403.

3. AIR OPERATIONS

Activity on Western Front hampered by unfavourable weather. No reports of major operations received from NORTH AFRICA or LIBYA.

RUSSIA. In STALINGRAD area, Russian aircraft are supporting ground attack in strength between November 22nd and 24th. 70 German aircraft were shot down in combat. In Northern Sector, Russians bombed HELSINKI on nights 22nd/23rd and 23rd/24th.

Treasury Department 133
Division of Monetary Research

Date Nov. 30, 1942

To: Secretary Morgenthau

From: Mr. White

Italy - R.A.F. Bombing

Our Minister in Switzerland transmitted reports that panic in such Italian cities as Genoa, Milan and Turin was so great, as a result of the R.A.F. bombings, that a series of runs on banks developed, forcing the banks in these cities to close their doors.

Bern, Nov. 25, 1942, No. 5430

Mr. White (orig. Mr. Gass)

Tress 134

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

Bern

Dated November 25, 1942

Rec'd 2:38 p.m.

Secretary of State,
Washington.

DIVISION OF

NOV 6 1942

COMMERCIAL AFFAIRS
Department of State

RUSH

5430, November 25, 1 p.m.

The Consul General at Basel reported this morning that reliable sources state that the banks in Lombardy and Genoa closed their doors yesterday afternoon following a series of runs subsequent to recent bombings and for the purpose of obtaining cash to effect the enforced evacuation of several cities.

Local Swiss banking authority confirms from a source which he states to be unquestionable that the banks in Milan closed their doors yesterday for the reasons stated above but that he does not yet have confirmation of other closures. He added that it would be logical for the branch banks in Genoa and Turin of the Milan banks to close likewise.

Further information will be telegraphed as received.

HARRISON

CSE

(THIS TELEGRAM WAS DICTATED OVER THE TELEPHONE)

Hotel Wareham,
Manhattan, Kansas,
November 26, 1942

THE PRESIDENT AND MRS. ROOSEVELT
THE WHITE HOUSE
WASHINGTON

WE HAVE JUST JOINED WITH YOU AT OUR RADIO IN GIVING
THANKS FOR THE BLESSINGS OF FREEDOM AND THE RIGHT
TO FIGHT FOR FREEDOM. WE ARE THANKFUL FOR THE
LEADERSHIP OF OUR COMMANDER IN CHIEF WHICH HAS BROUGHT
US TO THE MOUNTAIN PEAK WHERE WE CAN VIEW THE PATH
TO VICTORY STRETCHING OUT BEFORE US IN THE VALLEY
BELOW. AND TO BOTH OF YOU WE ARE THANKFUL FOR THE
MANY YEARS OF HAPPY FRIENDSHIP. LOVE.

HENRY AND ELINOR AND HENRY III.

MEMORANDUM FOR THE SECRETARY.

November 26, 1942.

Mail Report

In spite of the Thanksgiving holiday there was a decided upturn in mail receipts during the past week. Judging by these letters there is also an improvement in the public morale, for criticisms are decidedly fewer, and most of the letters contain concrete questions or constructive suggestions as to Treasury practice.

The new tax bill was endorsed in several letters, although unfair discriminations bothered a number of writers, as did the application of the Victory Tax. The pay-as-you-go plan still remains a popular favorite, and there are various suggestions for simplifying methods of collection.

Bond mail was, in the main, cheerful and cooperative. Publicity about the number of newspapers that had responded to the request that they become issuing agents brought letters from several that had been overlooked, and whose editors or publishers volunteered to fulfill this service. The opportunities offered by Christmas and Pearl Harbor are still pointed out by those who wish to increase Bond and Stamp sales. Victory Fund Committees seem to be increasingly active, although applications for positions as super-salesmen dropped to 4 during the week.

There were, however, two sour notes in the chorus. The case of Deyo vs. Adams, Supreme Court of Kings Co., New York, worried a number of correspondents who feel that sale of Bonds can be adversely affected by this decision regarding rights of inheritance. "The Horrors of Form PD-1646", as played up by certain columnists, also brought out considerable unfavorable comment. The

Memorandum for the Secretary.

November 27, 1942.

number of complaints on slow deliveries was unusually high. As before, more than half came from employees of the War Department who have as yet received no Bonds, although paying regularly. Among the suggestions for different types of Bonds, the idea of real coupon Bonds seems to have gained in popular request. Interest-free Bonds and gift certificates of smaller denominations are frequently suggested.

Salary stabilization mail has slightly decreased in volume and there is no change in the type of its content.

A handwritten signature in cursive script, appearing to read "G. F. Stewart", with a long horizontal line extending to the right.

General Comments

H. M. Harper, Chicago, Ill. At this time thousands of plants will be reviewing their depreciation schedules for the year. Most of us have been running our machinery many long hours against any normal production, yet, as far as I know, none of us know just what depreciation we should properly charge to include the extra hard hours of use. Many of us feel that no matter what program we adopt and the justification for it at this time, that this program may be attacked or set aside when our tax returns are reviewed in another year or two. I personally feel that a general statement from you or a general formula publicized at this time would avoid a great deal of duplication work and save thousands of industrialists from just plain guess work. * * *

F. R. Hinsch, Milwaukee, Wis. A week ago I paid off an American Merchant ship after 13 months. While we were in Australia we got sailing orders suddenly and I did not have a chance to exchange my money into U. S. currency unless I would neglect my duty aboard the ship by missing work. When I arrived in San Francisco, the Bank of America refused to exchange the money. The U. S. Navy Intelligence referred me to the U. S. Navy Paymaster. He also refused because he can only permit the U. S. Armed Forces to exchange their money. I could exchange my money on the black market at the rate of \$2 for one Australian Pound. When the Captain of the ship gave us a draw on our pay in Australia he charged \$3.25 for a Pound. I am now stuck with 128 Pounds and 10 Shillings because I did not neglect my duty in Australia where I would have got \$3.25 per Pound. What are you going to do about it? Will you permit the landsharks to exploit the Merchant Seamen who are risking their skin every day? * * *

Elias Eade, The Casino de Paris, Olean, N.Y. You are the admired of every loyal citizen for the excellent work you have done in the past and for the great efforts you are doing to guide our financial system to safety and victory. Needless to say, the burden on your shoulders is too great, but we have confidence that you will do the job and do it right. * * *

Wm. Hildebrant and Mrs. Wm. Hildebrant, Cavalier, N. D. As I saw in your letter Oct. the 27 (1942) will say that I am no individual. We have 13 children and all living so now tell us about the money exchange and make it plain.

R. L. Thomason, Avenal, Calif. * * * Announcements have been made to the effect that copper is needed badly and none can be spared for making more pennies, but if the Americans will put back into circulation all pennies they may have been saving, there will be plenty. I have almost 500 pennies which I took to the bank with the intention of turning them in. * * * The bank was very much opposed to taking them, saying they did not have time to take care of them and they would have to charge \$.02 a roll for packaging them. Needless to say, I did not turn the pennies in. Will you please advise me as to the desire of the Treasury in this situation? The name of the bank is - Bank of America - Branch 90-1355 - Avenal, California.

Demetress Melios, Oakland, Calif. I feeling the only way to win the war sacrifice money. So Dear Treasurer, my income is 30 dol. at month old age-pn. and so far i save bond and i wand to offer as gifts to the U. S. Treasury Dept. so plase let me know how i will sent et by mail.

Nathan Adams, Dallas, Tex. (Telegram) I am directed by the Dallas Clearing House Association to urge more careful investigation and consideration the proposed gasoline rationing for Texas and such parts of the nation which are not faced with problems of gasoline supply. Texas has been at all times a voluntary leader in preparedness. We are now preparing our campaign to meet your request for large increases in the purchase of War Bonds and certificates. Such purchases, however, like all other purchases are based upon our ability to pay. Gasoline rationing will so hamper the Texas economic situation as to jeopardize our ability to purchase and pay for Bonds and certificates; further increase our state and

county taxes and slow down our agricultural production. * * * Texas industrial and agricultural growth is a product of the automobile age, no adequate mass transportation facilities are available. The distance between cities and from farms to the nearest market are such that only automobiles and trucks can solve the problem. * * * Texans are most seriously disturbed by what appears to be an unfair and unjust attempt to force them into an unworkable rubber conservation plan. * * * Regardless of the economic and commercial factors involved, if we believed that gasoline rationing as now proposed was actually necessary, we would not protest. But we, like the overwhelming majority of people in areas where gasoline supply is not a factor, believe that further investigation and study should be made before any action is taken.

Bobby Burns, Garrett Park, Md. Please take this 55¢ and put it where it will do the most good. Don't let it be lost or burglars catch it. I am 6 years almost 7.

Christ Antono Povlos, Santa Barbara, Calif. This being the seasons when Americans show their thankfulness for the blessings bestowed upon them by their Creator, and while I am making up my gifts to send to several of my nephews and their buddies in the Army and Navy of America I thought it might be a good gesture of showing my appreciation of what America means to me by sending a Money Order to the amount of one War Bond, \$18.75, as a Thanksgiving gift to "Uncle Sam". * * * I am not rich in goods, being just a cook, an ordinary working man, but I am buying Bonds, several every month. These are an investment, the best in the world and are really no sacrifice. So please accept this little gift as a sacrifice, which every good American, whether born under the Stars and Stripes, or under a foreign flag, should be willing to make. And Honorable Sir, may I make a suggestion that millions of Americans be willing to give one Bond for every so many that they invest in, so that it would be easier for the Government to buy and have, free of any future obligation, more ships and tanks, planes and guns to fight this war for our own existence and that of all people who love liberty.

Stuart A. Sande, Executive Director, Gold and The Platinum Metals in Dentistry, N.Y.C. On August 7th, you acknowledged receipt of our check in the amount of \$18,574.43 representing our donation to the United States for the purchase of Mobile Dental Operating Units to be presented to the Medical Department, United States Army. To date we have had no further word regarding the presentation of the Mobile Dental Operating Units for which we contributed our fund. We would like to know what action has been taken up to this point as we are most anxious to have them presented and put to use.

Favorable Comments on Bonds

A. L. Irish, Vice President-Treasurer, The Colson Corporation, Elyria, Ohio. We are enclosing our report. No pressure has been applied to get the employees to buy more Bonds. * * * Investigation discloses that many are waiting to see what is going to be done about enforced savings and taxes. On the other hand, this company is setting up a rehabilitation reserve so as to be able to operate during the period of reconversion after the war. This reserve was created seven months ago and now amounts to \$70,000, all is invested in War Bonds. Our plan is to increase it at the rate of \$10,000 per month if, as and when the profits will permit. It is our belief that this plan should be encouraged by the Government by permitting a certain percentage of the income of industrial institutions to be tax-free. We consider it good economy to be prepared to offer employment while readjustments from war to peacetime operations are taking place.

Fred Collins, Route 1, Coyle, Oklahoma. I guess I've got myself in one hole as I thought I was doing my patriotic duty and have bought too many Bonds. Didn't know there was a limit until yesterday when I bought a \$1,000 Bond. So today I went into the Bank and checked up and found I have bought \$6,950 worth. So if you will write me and tell me what to do with them, that I have too many, or if you want to send Mr. Hoover out after me, I live 5 miles northeast of Coyle, Oklahoma.

Arthur Furst, Instructor of Chemistry, San Francisco Junior College, San Francisco, Calif. I have just bought another Bond. This represents over 20% of my 1942 income. Why must my Government give me interest on these Bonds? That question has bothered me all year. Why does not the Treasury issue interest-free Bonds for those of us who feel that we should not reap profit from this loan? I should be glad to buy these Bonds instead of Series E. Unfortunately, I am unable to give the money outright to the Government as my salary now is the same as that of prewar days.

- 6 -

Julius Stoll, President, Rochester Daily Abendpost, Rochester, N.Y. Allow me to take a moment of your valuable time to advert to a matter of considerable importance - the seeming inattention to the foreign language press in connection with the War Bond drive. Of course, the Rochester Abendpost and the foreign language press all over the country have given unlimited support to every drive - War Bonds, Savings Stamps, U.S.O., Red Cross, etc. This is our duty and sacred obligation and we intend a continuation of that policy until, please God, America and the United Nations shall have banished Nazism and Fascism from the face of the earth. We do believe, however, that in the campaign now being conducted under the auspices of some of our leading business institutions in cooperation with the Treasury Department, the foreign language press -- or at least the principal foreign language papers -- should be included. * * *

Austin V. McClain, President, Observer Publishing Company, Washington, Pa. Yesterday we received an Associated Press dispatch quoting you as saying that 600 newspapers had answered a letter you sent them and had agreed to be issuing agents for War Bonds. We did not receive such a letter but if it would help the program, we would be very glad to become an issuing agent.

Saul Fromkes, Vice President, City Title Insurance Co., N.Y.C. You may be interested to know that the City Title Insurance Co., has all (100%) its investment funds in U. S. Government Bonds. Our course is dictated by prudence as well as patriotism. Inasmuch as our business is to provide unquestionable surety to clients, the least (and most) we can do for ourselves is to go partners with Uncle Sam. To my knowledge, our investment policy is unique. If the example induces other firms to do likewise, it will be more than a matter of satisfaction to us -- it will be a benefit to the Government and a boon to the bond-buyers.

J. H. Zerbey, President, J. H. Zerbey Newspapers, Inc., Pottsville, Pa. The letter which was sent out by your office several weeks ago, regarding the newspapers acting as issuing agents for Bonds, was put aside because we felt we were accomplishing all we needed to accomplish by selling over a million dollars worth of 10¢ Stamps over the last year, and also because the Banks and Post Office are within a block of our own office. Then we got to thinking about it and realized that we were open evenings later than these people, and also open on Saturday afternoons. So, if you will list us to become such an issuing agent, we will see whether it is worth while from the Government's standpoint. During the last year, when we were spreading the gospel of Stamp sales to newspaper carrier boys, we suggested that perhaps the Post Office Department would issue Stamps on credit, to avoid a lot of cash outlay on the part of certain newspapers, and gracious goodness, how we were howled down. If I'm not mistaken, this was at a Treasury Department meeting along about the first of January. Now, along comes the Treasury Department and offers to make issuing agents of newspapers, without collateral. Gee Whiz! how times do change.

Wilton M. Smith, Mt. Lebanon, Pittsburgh, Pa. * * * There has been considerable talk in the newspapers and by word of mouth that the Treasury planned in the near future to limit the possible "cashing in" of the Bonds to those cases where extreme hardship could be proven. If such a policy is not contemplated by the Treasury, I believe such talk should be stopped by a definite statement. I am of the opinion that a great many people keep a certain amount of money as an emergency cash reserve which might better be in War Bonds, if it were available when the need arose. Take my own case for instance. I have always figured that I should carry a minimum of \$300 to \$400 in a cash reserve to take care of emergencies in the family, or unusual maintenance to the property. Now if I had very definite assurance that I could maintain this reserve in War Bonds and could get all or part of it if the emergency did arise, I would be glad to so use it rather than leave it in my bank. * * There is a possible source of a huge amount of money which is needed in the War effort. * * * You in the Treasury Department may be aware of this condition, but I thought a definite example as in my case might be of interest.

Unfavorable Comments on Bonds

E. L. Ruffner, San Francisco, Calif. The enclosed clipping from a San Francisco paper gives all of us who have every month bought Defense Bonds cause for alarm. If this is true, those of us who are old as this writer and may need money to pay for medical or surgical help, feel that if we can't sell back our Bonds we are out of luck as are our wives. In this case, we will buy no more Bonds, preferring to put our money in bank savings so we can check it out if necessary. Please reply to this letter at once as next month may mean I will buy no more Bonds (The following is an excerpt from the enclosed clipping.) Bonds you'll get for your savings won't be cashable till the war is over; don't count on them to get you out of immediate financial embarrassments.

Charles F. Sprague, Hoague-Sprague Corporation. (Shoe Box Manufacturers), Lynn, Mass. We have been trying, in our plant, to interest our employees in the payroll deduction plan for Victory Bonds. On November 4 our Office Manager was told at the Lynn Post Office that they had been given orders from Washington not to sell any more Government Bonds. Unless I am greatly mistaken I have learned over the radio and in many other ways, that the people should go to their Post Offices to buy their Bonds. I simply do not understand this matter at all, for it would seem to me that everything possible should be done to dispose of these Bonds and to make it just as easy for the people as can be done. If this is a new arrangement, my advice would be that the people be told that they can no longer get them at the Post Offices and be told the reason why. I confirmed the information myself by talking with Postmaster Wilkinson of the Lynn Post Office.

Mrs. Jessie Alberta Oldham, Hackensack, N.J. We recently moved from NYC to Hackensack, N.J., because of the shortage of rubber and gasoline. In NYC I faithfully bought War Stamps every week at Grocery Stores or at local banks. Since I moved here I cannot find a place except the Post Office, which is quite a distance from me, to buy War Savings Stamps. I transferred my bank account from a N. Y. Bank to the Bergen County National Bank in Hackensack. When I asked them for \$1 worth of War Savings Stamps the Cashier told me that no bank in the State of New Jersey sells War Stamps. I checked up on this with other cities and towns here and it is not true. Yesterday I spoke to an Officer of the Bank and he admitted the Cashier was mistaken, but stated they do not sell War Stamps in his Bank. I told him that I could not afford the time to go to the Post Office and asked him if he would get a supply of War Stamps. His answer was "NO". On the strength of this, I decided to withdraw my account as an American gesture. * * *

C. R. Van Etten, Office of the Quartermaster General, War Department, Washington, D. C. Months ago, when the Quartermaster General first asked his employees to buy War Bonds, I came across with half my pay. It is still going on and will continue, though not a Bond has come to hand. Since a bank will deliver over the counter, this long delay of Government is giving workers an excuse in evasion and is reducing the amount of Bonds that are bought.

B. J. Sayles, President, The Calorizing Co., Pittsburgh, Pa. In a recent drive, all our employees subscribed at least 10% of their income to the purchase of War Bonds. However, there is much dissatisfaction and we are beginning to get cancellations of these subscriptions because the Federal Reserve Bank at Cleveland takes five or six weeks to deliver the securities. * * * We share the feeling of our employees that this is an inordinate delay. It cannot fail to injure the War Bond drive. * * * Why

burden the Reserve Banks with these transactions? Cannot the banking facilities of each community or local Post Offices handle them with prospect of prompt service?

Neill Wright, Vice President, Bank of Huntingdon, Huntingdon, Tenn. It is a little unusual for a Country Banker, with limited horizons, to address you about fiscal policy. * * * There are millions of dollars held by Country Banks in their Time or Interest-bearing deposits. The funds are not payable on demand, are really static and renew themselves year after year. Much of it owned by local widows, who for unexplained reasons, prefer the small-town Banker as custodian of funds to the Government. We, in common with hundreds of Country Bankers, feel that we should be permitted to put, say, 25% of this money into Series G War Bonds. The Treasury needs the money, and the Banks, out in the sticks, would have an investment that would justify retaining these deposits, to which the liquidity argument does not apply. Should you see proper to alter your regulations, we want \$40 M of the 2-1/2's at once, which would bring our total holdings of Governments to \$140 M. * * * It does not appear exactly just to permit the giant Insurance Companies, handling the same kind of funds, to buy the 2-1/2's ad lib. and the privilege denied us. Also, it does not appear even-handed justice to apply same rule to the Chase National Bank, with idle billions, and the struggling small institution out in the hinterlands. I may be wrong in my deductions and clear out of order, but at any rate, we and many other Country Bankers will appreciate your giving the subject a thought.

Favorable Comments on Taxation

Lillie G. Fitzsimmons, Evansville, Ind. I do hope it is not too late to put into effect, if it has not already been arranged for, a plan to "pay-as-you-go" or "pay-as-you-earn" - income tax payments on 1943 incomes, beginning Jan. 1, 1943. * * * I have observed in our office when the subject of income tax is brought up in the presence of the young men who are subject to call, that they invariably say, "I am not going to pay any income tax on this year's income (1942). Why I am going to War and might lose my life, isn't that enough, so why pay income taxes, and besides, how can I pay while away - I may be in Africa?" Some of these young men earn from \$30 to \$40 a week, or more, and are single and therefore subject to income tax payments regardless of whether they are in the service or remain at home. * * * Yet the Government needs all the money that can be raised, and if a law was put into effect, at once, for income tax deductions from 1943 salaries, when the men are called to arms, they would be paid up as to income taxes, and would feel so much more satisfied than having to look forward to paying a debt incurred before they left for war. * * * The queer part is that these same persons who say they are not going to pay taxes on their 1942 incomes while or if called into the service, are very much in favor of deductions from their pay for income taxes, showing they are willing to pay at heart, and the reason is simply that they would not miss it by pay deductions; so why not make it easier and collect the taxes in such a way as to cause the least distress and eliminate the worry about whether one will have enough left to pay when pay time comes around again? * * * Please consider the desires of the majority of the American people, as most of them at least want to "pay-as-you-go" for their portion of the needed tax.

Joseph J. Dickman, Biddle-Cox Company, NYC. I would like to let you know what we are doing to aid our employees to be prepared for the payment of their tax next March. We employ about 85 girls from 18 to 25 years of age, who earn from \$18.00 to \$50.00 per week. None of these girls have earned so much money before, and very naturally have

been spending their money extravagantly. Upon inquiry we found that they were not saving any money for their income taxes. We held a meeting with our employees, and told them the amount of their tax next March. They really had no idea about this, and were quite frightened. We suggested that they start saving immediately, and the girls voted unanimously to adopt the following plan. Girls earning up to \$20.00 per week are to save \$1.00 per week, those earning from \$20.00 to \$25.00 to save \$2.00, and those earning over \$25.00 to save \$3.00. * * * This money is deducted from their pay each week and placed in a separate bank account. * * * Two of the employees and two members of our firm are Trustees. Money may only be drawn upon the signature of the employee and one member of the firm, and only if a girl leaves us, or for an income tax payment. * * * Perhaps you may wish to suggest to other employers to do likewise, until such time as you may have a compulsory savings plan for income tax payments. I might add that many of our employees have thanked us for proposing this plan to them.

Unfavorable Comments on Taxation

Senator Josiah W. Bailey, (North Carolina), sends letter he has received from D. M. Stringfield, Fayetteville, N.C., which reads as follows: I am not lawyer enough, nor have I found one in or out of the Federal Government that is, to understand what the tax bill means to do to the people. I wish you would pass this on to some Federal Government expert who can promptly, and without red tape, answer a question or two so that I can find out what I am to depend on before I get busy both in the Legislature and at home covering the time when a return must be made. * * * After paying the enormous income tax for 1942 out of 1943 income, is the five percent Victory Tax to be deducted covering the same period when my retaining fee, or salary, is paid by the County? Only a comparison with the situation of other lawyers is sufficient to show that this is class legislation and to show the injustice and even iniquity, to say nothing of inequality, of such legislation. * * * So far as I can see, only the man on a fixed fee or salary whose employer is a matter of record, can be reached with the Victory Tax, while the man who makes infinitely more money out of people not known and not traced and identified, pays no Victory Tax at all. I am seriously considering whether I would be better off to quit trying to make anything, rather than to try to comply with a law so vicious and savage; and an administration passing such a law is in office on borrowed time. I have sold property and out of my earnings together have bought \$4,000 worth of War Savings Bonds, but I will never have any more money to buy them with.

H. G. Tildesley, President, The Tildesley Coal Company, Cincinnati, Ohio, encloses clipping from the Cincinnati Times-Star, with the headline, "Treasury Secretary Had His Facts All Wrong".--I was very much interested in the enclosed article. It does seem a pity that a man of your position would give out information not according to facts in order to gain a point. This part of the

country, at least, looks upon the statements from one in your high office with great respect, and it is rather hard on the morale to read articles of this kind. Would it not have been better on your part to double check before issuing statements?

Mrs. Frederick Schweitzer, (Husband is Minister of The Ridley Park Presbyterian Church), Ridley Park, Pa. In the Philadelphia Bulletin on November 18 was a dispatch from Washington (Nov. 17) stating that Chairman Walter F. George was considering a proposal that one year's Federal taxes be postponed until after the war. Will you please make a statement to the newspapers explaining why we are asked to buy U. S. Defense Bonds and pay a lot of nuisance taxes if the United States does not need money? And they simply can't need any if the Senate Finance Committee wants to excuse the payment of the 1942 income taxes until after the war. This is not fair to those of us who have sacrificed many luxuries in order to save the money systematically every month to pay our 1942 tax on March 15, 1943. * * * If the George plan is adopted, which I hope it won't be, will there be any objection for a taxpayer to pay the old way -- every March on the income for the previous year? * * *

Marietta Banks, Rye, N.Y. I've been putting 10% of my salary into War Bonds. * * * I don't mind the fact that my income tax has risen over 100% in the last four years either. But when I went to hire a safe deposit box the other day, I admit I was indignant. 20% tax on it! It's the first safe deposit box I ever rented, never before having had anything valuable enough to need such protection. I would never have rented one if I hadn't bought Bonds. This may all sound pretty small; but don't you think it is pretty inconsistent to advise us to buy Bonds and then tax us for wanting to keep them safe?

**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. 57 - Aircraft Despatched
- for week ended October 27, 1942.

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

November 2, 1942.

MOST SECRETSTATEMENT NO. 57AIRCRAFT DESPATCHED FROM THE UNITED STATES WEEK ENDED
OCTOBER 27TH, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELTD FOR USE IN CAN</u>
<u>CONSOLIDATED</u>					
Catalina IB	U.K.	Canada en route		6	
<u>BOEING</u>					
Fortress II	U.K.	Canada en route		1	
<u>DOUGLAS</u>					
Boston IIIA	U.K.	Canada en route		11	
<u>FAIRCHILD</u>					
Cornell Pt 26	Canada	Canada			15
<u>LOCKHEED</u>					
Hudson VI	Canada	Canada			1
" "	Canada en route	- Will advise later		1	
" "	Middle East	Middle East		1	
" "	South Africa	Freetown		5	
Ventura	South Africa	South Africa		6	
<u>GLENN MARTIN</u>					
Baltimore IIIA	Middle East	Middle East		1	
<u>NORTH AMERICAN</u>					
Harvard II	Middle East	Port Sudan	5		
" "	South Africa	South Africa	13		
" "	S. Rhodesia	S. Rhodesia	17		
" "	India	Bombay	5		
Mustang	U.K.	U.K.	4		
Mitchell II	Canada	Canada		2	
<u>GRUMMAN</u>					
Hartlet IV	U.K.	U.K.		9	
<u>VULTEE</u>					
Stinson O 49	Middle East	Port Sudan		6	
TOTAL			59	34	16

British Air Commission
October 31st, 1942,

59
34
16
109

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Information received up to 7 A.M., 26th November, 1942.

1. NAVAL

MEDITERRANEAN. Between 13th and 17th one of H.M. submarines sank a Brigantine, a large schooner and a 2,200 ton ship in TRIPOLI-EL AGHEILA area. 23rd. Another of H.M. Submarines sank an enemy ship off South TUNISIA.

2. MILITARY

LIBYA. On 24th advance of our forward troops was delayed by mines but by early 25th they had reached a point about mid-way between JEDABYA and EL AGHEILA leaving no enemy east of this point.

RUSSIA. Russian thrust southward across loop of middle DON has now penetrated to a distance of some 75 miles and reached almost to NIZHNE CHIRSK. Immediately west of STALINGRAD further positions have been captured from the Germans. Small attacks have been carried out by the Russians on the front of the upper DON from VORONEZH to YELANSK against forces drawn almost entirely from German satellite nations.

3. AIR OPERATIONS

WESTERN FRONT. 25th. Hudsons hit a 2,000 ton ship and probably damaged 2 others in convoy off the Hook of HOLLAND. 25th/26th. 22 aircraft despatched sea-mining. A 2,000 ton ship was torpedoed off NORWAY.

FRENCH NORTH AFRICA. 24th/25th. Wellingtons bombed BIZERIA docks.

SICILY. 25th. Spitfire bombers made three attacks on GELA air-field.

CRETE. 23rd/24th. 57 tons of bombs were dropped on 2 airfields.

MEDITERRANEAN. 25th. Beaufighters bombed and hit a 2,500 ton ship off MIS RATA (TRIPOLI).

INDO-CHINA. 22nd. U.S. aircraft bombed HAI'PHONG and sank a 12,000 ton ship.

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U.S. SECRETREF ID: A18

Following is supplementary resume of operational events covering the period 17th - 26th November, 1942.

1. NAVAL

FRENCH NORTH AFRICA. One of H.M. Troopships was torpedoed by aircraft on 23rd but reached port safely. 12 officers and 477 ratings from H.M. S. MANCHESTER interned in TUNISIA are now on their way home.

TOULON. French naval units present on 26th included DUNKERQUE, FREMMING, Old Battleship PROVENCE, 4 heavy cruisers, 3 light cruisers, 18 large destroyers, 12 destroyers, 19 submarines and aircraft transport COMMANDANT TESTE.

MEDITERRANEAN. Estimated some 14,000 tons of enemy shipping sunk or seriously damaged by our aircraft besides numerous submarine successes already reported. Traffic from ITALY to TRIPOLI (L) decreased, but considerable increase to LISI and BIZERIA, especially latter which is being used as a main port for enemy reinforcement of TUNISIA. Russian icebreaker MIKOYAN left BLACK SEA last December and reached WHITE SEA via SUEZ, CAPE, CAPE HORN, ALYUTIAN ISLANDS and NORTH SIBERIA. Indications such as salvaging of ships at FEODOSIA and NICKALAEV and stopping or delaying of some supply convoys point to Axis anxiety about their shipping resources in BLACK SEA. Position has been aggravated by casualties from Russian aircraft, naval light forces and submarines operating from TUAPSE and SOCHI against German ships in Crimean and Tapan Peninsula areas. Ex-Norwegian oil refinery ship SOLGLIM (12,250 tons) believed destroyed during air attacks on CHARBOURG last September recently seen in dry dock.

SUBMARINE WARFARE. Provisional figures week ending 22nd - 11 ships sunk by U-boat, of which 10 in ATLANTIC. A Merchant ship (10,000 tons) carrying passengers sunk south-east of SOCOTRA, 641 persons rescued, 263 missing. Same week three ocean convoys totalling 70 ships arrived United Kingdom without loss. 17,000 tons arrived United Kingdom in these convoys, of which 178,000 tons oil. Three outward bound ocean convoys totalling 93 ships arrived without loss. 6 ships sunk in two outward bound ocean convoys. Week ending 26th 2 promising attacks. Suspicion that sinking of U-boats and damage done to them have temporarily dampened down this activity east and west of GIBRALTAR for the moment. Elsewhere in Atlantic theater, also in Cape area.

MILITARY

LIBYA. Pursuit of enemy continued to EL AGHAILA-MARSA BRAGA area. Indications remnants enemy forces with whatever reinforcements he has received may be at least temporary stand this area.

FRENCH NORTH AFRICA. Our advance continued and further reinforcements armour and infantry are on their way east to TUNISIA. United States Parachute Battalion which previously landed in ELBESSA area has been working in very close touch with French units in area and have been patrolling to GAFSA and the south. United States long-range fighters operating from airfields in this area have found very good targets of tanks and mechanical transport both north and south of GABES. Enemy forces in TUNISIA estimated 18,000, of whom approximately 12,000 are German. Unloading of stores and build-up of United States troops in French Morocco continues without incident.

3. AIR OPERATIONS

WESTERN FRONT. 2 heavy night bombing raids on STUTTGART and TURIN respectively both considered successful, especially the latter. At least 6 ships estimated at 13,750 tons in home waters hit and damaged by our aircraft. 14 anti-aircraft sorties. 215 sea mines laid for loss of one aircraft.

FRENCH NORTH AFRICA. Aircraft from MALTA co-operated with those based in ALGERIA and TUNISIA in support of our operations. Main tasks - Wellingtons night bombing BIZERIA, Beaufighters interception of air transports and shipping, Blisleys night and day bombing, Beauforts mining of BIZERIA harbour, United States Fortresses daylight raids on airfields, United States Lightnings supporting Fortresses. Enemy aircraft bombed BONE and ALGERS airfields destroying and damaging some of our aircraft on the ground. Scale of attacks increased towards end of week especially against roads used by advancing troops.

Regraded Unclassified

- 2 -

MALTA. Protective patrols for convoy arrival and subsequent unloading prevented any enemy attack. Bombing raids and intruder patrols over Sicilian airfields.

GIBRALTAR. 222 anti-U-boat patrols and convoy escort sorties flown. 4 nightings and 8 attacks besides 3 attacks by aircraft from NORTH AFRICA.

RUSSIA. Estimated 400 Axis aircraft of all types including high proportion long-range bombers withdrawn to MEDITERRANEAN area since beginning October.

EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

TURIN. 18th/19th November. Attack fell chiefly on industrial districts. Many factories damaged. 20th/21st. It is reliably reported that a panic evacuation took place as a result of the heavy air attack of the previous day, and that order was not restored until 23rd. Damage to industry was heavy and some shops and houses in the centre of the town were destroyed. Casualties were high and effect on morale was serious. Railway services were interrupted for 48 hours. This attack caused further damage to Fiat, Lancia, Michelin, S.P.A. Artificial Silk Works and two docks.

MILAN. Since our daylight attack Italian fighters have patrolled over the area at intervals with the sole object of restoring confidence shaken by complete preparedness of defences at time of attack.

BERLIN. Reliably reported output Lloyd Lysiane Works, makers of naval electrical equipment, fallen by 33 per cent.

LILLE. 9th October. Power Station Fives-Lille unserviceable for six weeks. Entire plant shut down 2 days until emergency electricity supply arranged. Steel production delayed two weeks. ST. NAZAIRE. 14th and 17th November. Daylight surprise attacks. Direct hits on shipyards, at least 5 direct hits on submarine pens, setting dock listing and partially submerged, both passenger and goods stations hit. Several quayside buildings and sheds damaged.

SEA MINING. Reported iron ore shipments from BILBAO to BORDEAUX and BREMEN dropped from 131 sailings August to 55 in September.

OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

	<u>Allied</u>		<u>Enemy</u>		
	<u>In the Air</u>		<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	22		Bombers 1	Nil	5
Fighters	5		Fighters 18	3	7
Coastal	5		Miscellaneous 3	Nil	Nil
Total	32		Total 22	3	12
One pilot is safe.					

NORTH WEST AFRICA

	<u>In the Air</u>		<u>On the Ground</u>		<u>Enemy</u>		
	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>	
Bombers	4	Nil	Nil	Bombers 3	Nil	Nil	
Fighters	2	12	Nil	Fighters 5	Nil	Nil	
Miscellaneous	Nil	5	Nil	Miscellaneous 25	11	21	
Total	6	17	Nil	Total 33	11	21	

Of the above total Naval anti-aircraft claim 3 destroyed, 9 probably destroyed & 17 damaged.

MIDDLE EAST (Incl. MALTA)

	<u>In the Air</u>		<u>Enemy</u>		
	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	2		Bombers 4	2	1
Fighters	21		Fighters 3	1	3
Others	1		Miscellaneous 22	1	4
Total	24		Total 29	4	8
2 crews and 9 pilots are safe.					

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British naval aircraft casualties.

Regraded Unclassified

157

NUMBER 59

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

November 19-26, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

NOVEMBER 19-26, 1942

SECRET

Office of Strategic Services

THE WAR THIS WEEK

The leading news of the week came from the wind-raked steppes about Stalingrad, where the Russians suddenly threw out two pincer arms toward the west. These twin drives have made spectacular progress, according to Soviet accounts, and are now moving toward convergence west of the great bend of the Don. The completion of this operation would threaten with envelopment large German units in Stalingrad itself and in the region between the Volga and the Don. The Russians have seized a strategic moment at which to launch this offensive—when the force of the Nazi drive against Stalingrad had begun to spend itself and when the Germans had begun to move substantial numbers of men from the front lines to winter quarters, or as reinforcements for Central Europe and the northern shore of the Mediterranean.

Allied and Axis forces continue to move into Tunisia, but the real test of strength is yet to come. Meanwhile the British have driven Rommel back to El Agheila, and a further British advance to the west is conditioned in large measure by the problem of supply. Some close observers of the North African theatre believe that the Germans are in no position at present to build up a sufficient force to permit any prolonged resistance to Allied armies in Africa, and that the Nazis are fighting a rear-guard action which aims above all to give them time to strengthen their air and other defenses in Sicily and southern Italy. These observers seriously discount predictions of a German offensive in either Spain or Turkey.

In New Guinea Allied forces are gradually prying loose the Japanese grip on Buna. Our position on Guadalcanal is

SECRET

steadily improving, and the recent naval victory has lifted the threat from that area for the time being at least. A recapitulation of probable Japanese cruiser strength, moreover, shows that the enemy has suffered very seriously in that category.

Soviet Offensive Around Stalingrad

The Russian pincers attack around Stalingrad represents a bold, and thus far successful, effort to relieve the Volga River city. The southern arm, striking from Krasnoarmeisk, a Kalmyk village on the Volga south of Stalingrad, has driven southwest along the Stalingrad-Tikhoretsk railroad to Abganerovo and the small towns of Tundutovo and Aksai. Thence it has widened out to take Sadovoye, Umantsevo, and Peregruzny.

The northern arm, after enlarging the already existing Soviet bridgehead above the Don bend at Serafimovich, has wheeled southeast to cross the Don from west to east below the bend and establish another bridgehead at Kalach. Enlarging this bridgehead, Red Army units have driven down the spur railroad from Kalach to its intersection with the Don bend-Stalingrad railroad at Krivomuzginskaya. The Russians have likewise taken Surovikino on the same railroad west of the Don. A further column, headed due south from Serafimovich, has captured the village of Pogodinsky, and the towns of Chernyshevsk and Perelazovsky. North of Stalingrad, Soviet forces around Akatovka have driven south to the relief of partially isolated Russian units, and within Stalingrad itself the Soviets have recaptured several blocks of buildings in the northern suburbs.

The pincers movement has thus cut the only two railroads which the Germans can use as supply lines to their troops in and around Stalingrad. If the Red Army can succeed in joining the two arms of the pincers, it will have trapped the

SECRET

Nazi units in Stalingrad and between the Don and Volga Rivers.

The time for attack is well chosen. With many German divisions already withdrawing to winter quarters and with Axis attention focussed on the Mediterranean, the Russians have taken advantage of the new freedom of movement which these events, coupled with the freezing of the Volga River, have given them. As in December, 1941, they have counterattacked in force at the very moment when the enemy's attack had flagged and the Nazis had lost the initiative. Now the southern anchor of the German winter line is threatened. Unless the Nazis retaliate soon, they may be obliged to withdraw toward Rostov—thereby imperiling their long salient toward the Caucasus.

In the Caucasus itself, the week has been indecisive. On the Ordzhonikidze front, the Russians, after announcing a smashing victory over the 13th and 23rd Panzer Divisions, and the 1st German and 2nd Rumanian Mountain Divisions, have claimed little further progress. Around Tuapse, the Nazis have made small-scale counterattacks with considerable air support; and attack against shipping in the harbor has been unsuccessful. On the central front the Germans admit a Russian penetration west of Toropets (northwest of Rzhev), while east of Leningrad the Russians have made another effort to break out across the Neva. In the far north, the Germans have again bombed the Murmansk Railroad.

Finnish Isolation?

With the German loss of initiative on the Eastern Front and the Axis defeats in the Mediterranean, neutral observers (whose views can be accepted only with caution) are detecting signs of growing Finnish uneasiness. Their reports suggest that the Finnish General Staff is now convinced of eventual Nazi defeat, and that the Finns fear a repetition of 1918,

when the Germans abandoned their allies and withdrew to the Hindenburg Line. Such an abandonment would appear unlikely for the present, however, in view of the reduction of pressure on the United Nations convoy route to Russia which it would probably entail.

Reports on public opinion suggest that a cleavage is growing between the extreme nationalists, who have staked all on a German victory, and the Swedo-Finns and Social Democrats, who see Russia as the only barrier to a pro-Allied course. The latter, apparently, fear a conservative coup should the Nazis meet further reverses. Within the Socialist camp, the nationalist attitude of Tanner, Minister of Finance and the leading Social Democrat in the Government, is causing concern. But the Socialists are apparently united in their fear of the Soviet Union, and in their conviction that the presence of an Anglo-American army on the Continent would aid in preventing the spread of Communist institutions. In brief, Finnish opinion remains tragically confused.

Campaign in Tunis

As the British First Army and attached American forces have pursued their comparatively slow advance into Tunisia, the Axis has retired to a line a little to the east of Djebel Aboid and Medjez-el-Bab. Both sides are showing a certain amount of caution, the enemy perhaps intending to dig in along his present positions, the Allies apparently awaiting the establishment of a firm supply line before launching a concerted attack on the Axis bridgehead in the Tunis-Bizerte area. A small British force has repulsed a German infantry column accompanied by a few tanks 45 miles southwest of Bizerte, while French troops supporting United Nations forces have stopped an Italian advance eight miles northeast of Béja. In the air, the Axis has replied to Allied attacks on

the Tunis (Aouina) and Bizerte (Sidi Ahmed) airdromes by bombing United Nations airfields at Bône and Souk el Arba. According to current estimates, Axis strength is now about 12,000, plus many light armored vehicles and about 90 tanks, and is steadily increasing.

The enemy has also struck for control of the vital frontier zone between Tunisia and Tripolitania. South of the Tunis-Bizerte area, he already has small forces at Kasserine, Sbétla, Kairouan, and Graiba, and perhaps somewhat larger ones at Sousse, Sfax, and Gabès. At this last point, Axis units of unknown size have been arriving by land, sea, and air. From Tripoli another column has apparently also reached Gabès.

The purpose of this dispersal of Axis forces is not entirely clear. The occupation of points to the south probably aims to maintain communication with Tripoli, destroy installations, and prevent immediate Allied use of these rail centers—rather than to take up any major defensive positions. But the mining of the approaches to Tunis and Bizerte and of vulnerable points around these two ports would suggest a determined Axis effort to hold their main bridgehead. American observers question the probability of a successful "Dunkirk" from Tripoli—in view of the comparatively minor importance of remaining Axis forces in Libya, and the difficulty of evacuation along a sea route threatened by British aircraft based on Malta. It may be significant that the only reinforcements that have reached El Agheila have been troops already in Libya. The Tunis-Bizerte bridgehead, is, however, far easier to supply or evacuate. Even if only to gain time for the reinforcement of Sicily and southern Italy, a vigorous defense of northern Tunisia would appear to be a major Axis intention.

Rommel's Retreat: The End of the First Phase

With the capture of Barce, Benghazi, and Agedabia, the British have ended the first phase of their long pursuit of the

Afrika Korps. They have reached the approximate point where their previous two advances stopped, and where the present campaign will necessarily narrow from a war of maneuver into a fight along the single coast road leading to Tripoli. Military observers emphasize that from now on the British advance will depend not so much on the forces available, but on the supplies that the Eighth Army can bring up from bases far to the rear. With Benghazi largely wrecked, it seems probable that the greater part of Montgomery's supplies must still come from Tobruk and the Nile Delta.

In other words, to the west of Rommel's present position at El Agheila, terrain and supply favor the Axis. Furthermore, in the course of his retreat, the Field Marshal's forces have grown considerably. A few days ago, estimates of Rommel's strength—including elements of the 15th and 21st Panzer Divisions, the 90th Light, and the Italian Pistoia Division from Tobruk—ran to about 25,000. Since that time remnants of other divisions have joined him, and he has picked up various Italian coastal defense units along his way. Many of these accretions may be too demoralized and fragmentary to represent an effective addition to the Axis fighting forces. At El Agheila, however, Rommel has been joined by two operational units from Tripoli, the Spezia Infantry Division and elements of the Centauro Armored Division. His current strength may, then, be nearly twice the earlier figure.

Under these conditions, a battle of annihilation at El Agheila appears unlikely. More probably, the British will have a sufficient superiority in tanks and guns to push Rommel along the road toward Tripoli. Axis strength in Tripolitania has been considerably weakened by the reinforcements sent both to Tunisia and to El Agheila. Under continued pressure from both east and west, the Axis will probably attempt an orderly withdrawal on Tripoli itself.

Tunisia and Tripolitania as Defensive Zones

The ability of Axis forces now in Tunisia and Tripolitania to withstand Allied attacks from the west and east will depend largely on three factors: first, the success with which they can reconstitute the dismantled French Mareth line and the Italian defense area opposite; second, the number of airdromes available for Axis planes in relatively unexposed sectors; third, the volume of tonnage which can be landed and distributed at Axis-controlled ports or beaches.

The crescent range of mountains from Gabès to Tripoli, called the Matmatas in Tunisia and the Jebel Nefusa in Tripolitania, forms the basis of both the French and Italian defenses on the Tunisia-Tripolitania border (see map at back). Although on the map the French triangle of maneuver (Gabès-Dehibat-Ben Gardane) and the Italian triangle (Tripoli-Nalut-Zuara) appear very similar, differences of soil and terrain have led to different types of defense technique. The former defenses of Tunisia were more continuous, with an organized system of trenches in the Mareth Line. The Tripolitanian defenses are rather groups of artillery fortresses and anti-aircraft platforms, with an excellent road network between them. In neither case, however, are the defenses fixed in the sense of the Maginot line: both have been adapted to the needs of plains and steppe warfare.

Tunisian Airfields

Axis efforts to build up air strength in Tunisia are meeting with two major impediments: in the first place, northern Tunisia, where considerations of strategy would place the bulk of the combat squadrons, is ill-adapted for such a concentration of planes; secondly, airfields anywhere in Tunisia are gravely handicapped by local shortages of gasoline, repair facilities, and ground personnel. These shortages can be

overcome by air shipments, but only at the cost of tying up transport planes badly needed for troop supply.

Existing airdromes in northern Tunisia possibly under Axis control have an estimated capacity of 76 medium bombers, 70 light bombers, and 74 pursuits. Their emergency capacity might be 180, 130, and 170 planes, respectively. But in view of the danger of overcrowding on vulnerable fields, and conditions resulting from the winter rains, it is doubtful whether the Axis will come very close to this potential maximum.

The core of the French defenses, the Mareth Line, along with the other defenses of Tunisia, have been dismantled by order of the Italian Armistice Commission. The thoroughness with which the Italians have removed its armament and stores and demolished its barracks would suggest that it would be impossible to reconstitute the line very quickly—even if one should assume the possibility of adapting the gun emplacements for fire in the opposite direction from that originally intended.

Consequently, the Italian frontier fortifications will probably prove more important in the Axis defensive system. These latter are intended to trap an invading army from the west between the sea and the heavy artillery along the Jebel. The following are the main lines of defense: 1) the fortifications at Zuara covering the Via Litoranea and the road leading south to El Giose and Nalut, and the more important and stronger fortifications at Nalut, probably the strongest point in the system; 2) the fortifications in the Jebel, at Giado, Jefren, and Garian; 3) a line of artillery defenses running from Sidi Bilal, about 25 kilometers west of Tripoli, south to El Azizia and then southwest to Jefren. Behind this third line are secondary lines stretching from El Azizia to Bu Gheilan, and from Castel Benito south to the Jebel.

Supply Problems

If the Axis is to offer more than a token resistance in Tunisia and Tripolitania, it will be forced to import much more than merely military supplies. In fact, it will need to bring in nearly all its motor transport, most of the coal required for locomotives and power stations, virtually all the gas and oil necessary for its trucks, tanks, and planes, and most of the food needed by the army itself.

That the Axis can land and distribute all these supplies, in addition to troops and their military equipment, seems unlikely. Under optimum conditions of weather and shipping, and without disturbance from air attack, Tunisian and Tripolitanian ports might be able to handle 15,600 tons a day, or 109,200 tons a week (*The War This Week*, November 5-12, p. 21). But these ports are so scattered along a 700-mile coastline that concentration of matériel in any one sector would put a considerable strain on inland transport facilities. Moreover, ports serving critical areas in Tripolitania and northern Tunisia have only two-thirds of the total tonnage-handling capacity of the region. For unloading supplies on beaches, the Axis could resort to the use of shallow-draft vessels. But even if the enemy can provide a sufficient number of lighters, the problem of transport inland from the beaches—often across marshes and lagoons—will remain.

Italy: Reinforcement and Air Attack

Despite the new threat from the east, the Axis appears intent on strengthening its Mediterranean defenses. During the past ten days, according to unconfirmed reports, four German Divisions have gone to Taranto and Sicily. Further reports suggest that three German divisions are moving south through Yugoslavia and Bulgaria, and that the Italian Second Army is being transferred to Sicily from the Dalmatian coast.

SECRET

On the nights of the eighteenth and twentieth, the RAF launched against the north Italian industrial city of Turin the heaviest raids which it has thus far made in Italy. The Fiat engine works were evidently a prime target. According to press reports, there were no losses on the first raid and only three bombers missing on the second raid. RAF planes have likewise attacked Axis airdromes in Sicily.

The Italian press has described the recent British raids as "devastating". Neutral sources assert that several individuals even shouted for peace when the King and Queen of Italy visited Genoa, target of earlier British attacks.

German Intentions in the Mediterranean

Some close observers of the Axis military position believe that the Axis will now adopt a definitely defensive position in Europe. They point out that the Germans can not safely remove any notable part of their forces in Western Europe by reason of the perennial threat of invasion from Britain, and that they are unlikely to be able to withdraw any considerable strength from Russia under existing conditions. Hence sufficient forces are not available for an offensive through either Spain or Turkey; moreover, an attack on the former would invite an Allied counter-invasion, while an attack on the latter would add the Turkish Army to the forces of the United Nations (see Appendix I). In view of the difficulty and slowness of the reinforcement of Axis strength in Africa, the present actions there should probably be regarded as efforts to gain time for defensive preparations in Sicily and southern Italy.

Spanish Neutrality Policy

The shift of Spanish policy from "non-belligerency" to neutrality is confirmed by further reports from Madrid,

SECRET

although technically the legal status of "non-belligerency" has not been altered.

Spain's partial mobilization, bringing her total number of men under arms to about a million, is interpreted as a precautionary measure in line with the reported decision of the Cabinet to oppose any possible pressure by the *Wehrmacht* for entrance into Spain. To date, however, the Germans have apparently made no demands on either Spain or Portugal. General Aranda believes that the Nazi threat to Spain has passed, and that the creation of a Spanish salient now would only weaken Germany strategically. The generals of divisions, or higher, along the Pyrenees are considered "safe" from the Allied point of view.

Appointment of 95 Falangists to the third National Council of the party (the former National Council having been dissolved) suggests no new international trend despite the inclusion of Serrano Súñer. Other ex-office holders are on the list. The National Council, legislative body of the Falange, is entitled by law to give advice on important international problems submitted by the Caudillo, but its role in general is subordinate to the Council of Ministers and the Junta Política of the party. The newly created Cortes constitutes another rival to the National Council.

Dakar Joins the Procession

The adherence of French West Africa to the administration of Admiral Darlan was the logical result of a military operation which had left Dakar and its vast hinterland practically isolated from continental France. Furthermore, with the elimination of Vichy as an effective political force, Admiral Darlan remained as the one relic of the previous administration to whom Governor Boisson could pledge his allegiance. In other words, it is not so much to the Allies that French West Africa has swung its power, as it is to the heir apparent of Vichy.

The result may be to raise for the moment the prestige of Admiral Darlan. The Admiral has begun the organization of his domain with the appointment of another holdover from the Vichy administration, Admiral Fenard, as head of an economic secretariat for French Africa. Observers on the spot suggest, however, that Darlan's inability to induce the French fleet to move from Toulon to Africa has eliminated his chief *raison d'être* (the squadron at Bizerte has not cooperated with the Allies nor is there apparently any guarantee that the ships at Dakar will do so). These observers feel that the Admiral's position may soon become so difficult that he will be obliged to transfer his powers to Noguès. Yet even this change, they conclude, would do little to raise the standing of the regime which the United States has sponsored, in view of Noguès' past record of equivocation and compromise.

For the present, the Fighting French are in a most difficult situation, since the colonial areas that Darlan controls are a great deal more extensive and important than their own. According to press reports, some of their leaders fear that the "temporary" arrangement with the Admiral may last for the duration. De Gaullist representatives in Brazzaville and Cairo have, however, already registered their acceptance of President Roosevelt's explanation of the Admiral's status. The amnesty granted by the French North African Commission "to all persons who favored Allied action in Africa" may further reassure them. The Fighting French claim that the amnesty will make available for military service 10,000 of their comrades now in concentration camps; pro-Ally officers of the former North African administration, like General Bethouard, may also receive military assignments. But within France itself the underground organizations are still perturbed by the current arrangement; advices from London suggest that they have protested strongly against the recognition of Darlan.

In Occupied Vichy

Darlan's titular chief, Marshal Pétain, has again denounced "Anglo-Saxon aggression" and urged on all Frenchmen their "one duty: Obey". The speech suggested that the Marshal wished to give the impression that he had not retired completely from the scene, despite his substantial abdication of power to Laval and his designation of the latter as his successor. According to Swiss observers, Pétain has refrained from flight in an effort to protect from the wrath of the Nazis the Jews of the former unoccupied zone, escaped French prisoners, Alsatian "deserters" from the German army, and intelligence officers whose activities have displeased the invaders. In the view of the Vichy Military Attaché at Helsinki, the Italian occupation of Corsica and Nice has significantly added to French bitterness against the Axis.

At Toulon, all Armistice restrictions on the French Navy have been removed since the Allied attack, and some of the warships are now kept ready for battle, according to a local source. Half the fleet can be ready at three hours' notice, the other half at six hours' notice. Only two of the officers, however, have refused to take an oath of loyalty to Pétain and of resistance to the Allies, our source concludes.

Unoccupied Toulon is apparently the dividing line between the new German and Italian zones of occupation. In former Vichy France the Nazis have now stationed a total of six to ten divisions, two or three of them Panzer divisions. The armored units, at least, were previously in Occupied France, and could presumably be replaced there only by Panzer divisions from Russia; there have as yet been no reports of the arrival of such units from the Eastern Front.

Relaxation of Tension in the Levant

Although a settlement has yet to be reached in the Levant, tension there appears to have subsided. Allied victories in

Africa have eased the situation, and De Gaulle's visit is reported to have restored French prestige somewhat in the area. Catroux now appears willing—if all goes well, and if the British supervise the elections—to let the people go to the polls in the spring of 1943. Nevertheless, despite the report that a satisfactory Anglo-French arrangement has been concluded respecting the government of Madagascar, Catroux rejected the tentative agreement negotiated by the Fighting French in London with regard to the Levant. Personality conflicts there remain acute; and the superficial calm of domestic politics in Syria and the Lebanon apparently covers a tangle of distrust and rivalry which may break into the open with the expected wheat shortage of the coming months.

Iran's Currency Crisis

In Iran, a country in only the initial stages of a money economy, severe economic dislocations and price increases have resulted from the depletion of supplies, cash trade, and rise in employment attendant on the Allied occupation. By October the United Kingdom was spending in Iran 300 million rials a month, the Soviet Union was spending 100 million, and the 15 million spent by the United States represented merely a beginning of anticipated American disbursements. Currency issued up to the beginning of April 1942 totalled two billion rials. By November the Iranian Parliament had voted an additional one and one-half billions at British suggestion. With the British insisting on further large issues, and the Cabinet hesitating to adopt what it considered inflationary measures, a Parliamentary crisis appeared inevitable.

At this juncture, faced with the menace of a British occupation of the capital, the Prime Minister threatened Parliament with dissolution unless it complied with the desires of the British. On November 19 the Parliament delegated to

a Note Reserve Control Committee full authority over paper money, within the limits of the backing required by law—60 percent gold and 40 percent dollars and sterling, with Anglo-American backing. Arthur C. Millsbaugh, an American political scientist recently appointed Director-General of Finances, is to be a member of the Committee. Having gained this concession, the British now promise a declaration assuring the Iranian people that their wheat needs will be met from Allied supplies.

Progress in Middle Melanesia

At Buna, the Japanese are clinging desperately to their beachhead, after 13 days of intense fighting. Australians have isolated the enemy's nearby coastal position at Gona, but a small number of Japanese troops surrounded there still are holding out. Americans, approaching Buna from the south, have captured one airfield and are fighting near a second in the immediate environs of Buna, where the enemy occupies well prepared positions.

Although the Japanese—under cover of darkness and during weather which grounded our aircraft—succeeded in landing some reinforcements on one occasion, two other attempts have been repulsed by Allied air attacks. The Japanese have increased their own air forces, based at Lae, but have not been able to diminish our air superiority either at Buna or over the waters approaching it. Unless this can be done, the Japanese position must become increasingly hazardous. However, time gained now at the perimeter of the defenses of Rabaul would enable the Japanese to reorganize their naval forces, build up their remaining bases, and replenish ground forces depleted during the recent abortive attack on Guadalcanal. This, evidently, is their objective.

Evidence of a strenuous effort to strengthen bases is reported from the northernmost of the Solomon Islands, Buka,

where railway equipment, trucks, engines, power rollers, and abundant building materials are said to have been landed, preliminary to the development of a stronger and larger base and airfield. In the Buin-Faisi area, farther south, enemy shipping has been reduced to a small fraction of the 30-45 ships sighted there prior to the latest abortive attack on Guadalcanal, but there is no other evidence of slackened activity.

On Guadalcanal, Japanese forces on the northwest coast are being pressed slowly westward from the Matanikau River, and enemy troops to the east of Henderson Field have been largely eliminated. We have regained numerical superiority on the island, and while a further enemy attempt to retake it is expected by some military observers, our positions there are believed by Secretary Knox to be ". . . very secure."

Symbolic Value of the Solomons

If the psychological evidences in Japanese propaganda are reliable signs, an attempt to reconquer Guadalcanal will most certainly be made. Previous extravagant claims of "victories" in the Pacific have now come home to roost so plainly that the Japanese home propaganda line has had to be revised more completely than at any time since the war began (the new direction, designed to meet an adverse military situation, is not defeatist). During the process of reorientation, according to FCC analysts, the Solomons have become an area of great symbolic significance. The Solomons, in the words of one Japanese commentator, are like the rivet to the fan—"Indeed, . . . the rivet and key of the final battle of the Pacific war." Until Japan establishes control over the area, he adds, a fourth and even a fifth Solomon Islands battle must be fought.

Unprecedented Japanese statements urging the necessity

for driving Americans out of this area seek to make further Japanese losses palatable, according to the FCC analysis. The admission meanwhile that the American fleet has not been "crushed," that on the contrary Americans fight fiercely and with large forces, must greatly confuse the Japanese, who since the Chinese "incident" have been attuned only to the "all-victorious and all-conquering" theme. Failure in the Solomons now would redouble confusion and—all questions of "face" aside—create the first serious internal propaganda situation the Japanese will have faced.

Japanese Cruiser Strength

As a result of recent losses, Japanese cruiser strength may have been reduced to half that which the enemy possessed at the beginning of the war. If several old cruisers built about 1900 are excluded, an initial Japanese strength of 37 is the figure generally accepted by naval observers. A light cruiser, two cruisers of 14,000 tons, and one "pocket battleship" of 19,800 tons were scheduled for completion in 1942. Adding these four to the 37 above and subtracting the number believed sunk since January 1, 1942—conservatively, 22—present Japanese strength may be estimated at about 19.

These loss figures are considerably lower than recent newspaper estimates, and they do not take into account ships "possibly" or "probably" sunk. Likewise, they do not include damaged ships. In the two months from September 15 to November 15, 21 cruisers were reported damaged, largely on different days and occasions, but doubtless with some duplication of damage to individual cruisers involved. If it can be assumed that a third of these are out of action, the Japanese may at present have scarcely more cruisers available for their far-flung naval tasks than they have battleships.

While this conclusion appears very optimistic, it does not preclude the possibility of further Japanese naval operations

SECRET

in the Solomons. In estimating losses, however, there is a wide range between the most conservative and the most liberal interpretation of reported sinkings—a range of possibly 10 cruisers. If the upper rather than the lower limits were accepted, the number of Japanese cruisers immediately available for operations theoretically would be reduced virtually to zero.

Chinese Reports of Japanese Troop Movements

The same Chinese sources who were responsible for earlier reports that the Japanese were threatening an extensive drive in North and Central China are now talking of an imminent Japanese attack on Yunnan. These sources state that the Japanese are massing troops near the Salween River and in French Indochina, for a push against Kunming. There is no corroboration of these reports and our observer cautions that the Chinese are apt to make predictions of imminent Japanese attacks whenever China's allies are undertaking major actions, on the theory that such talk helps to forestall suggestions that the Chinese might undertake something themselves. There has, however, been increased air activity by both the Japanese and the Allies in Burma, which might suggest that there is some basis for the Chinese warnings.

Meetings of the Kuomintang Central Executive Committee

The Kuomintang Central Executive Committee is holding its annual meeting at Chungking. The economic situation will undoubtedly be the chief subject of discussion. The Generalissimo is reported to be entertaining the idea of establishing a Ministry of Economic Warfare, which would take over many of the functions now exercised by the Ministries of Finance, Economics, Food, and Social Affairs. T. V. Soong, Foreign Minister, is known to have supported such

SECRET

a plan and is among those mentioned as a possible head of the projected Ministry. General Chang Ch'un, the devout Episcopalian who acts as a Chairman of the Szechwan Provincial Government, is also a possibility. At present, however, according to our observer, it appears that General Ch'en Ch'eng, Commander of the Sixth War Zone, and an intimate of the Generalissimo, is the most likely candidate for the post.

Jinnah's Journey Through the Punjab

Mohammed Ali Jinnah's recent trip through the province of the Punjab has apparently strengthened his following in a critical area of mixed population. The Moslem League leader aimed to counteract the influence of Sir Sikander Hyat Khan, Moslem premier of the Punjab, who has followed a policy of reconciliation among Hindus, Moslems, and Sikhs. On the critical issue of Moslem self-determination, Jinnah characterized Sir Sikander's moderate ideas as "mischievous," and held to his uncompromising insistence on an independent *Pakistan* (see Appendix II).

Cripps Leaves the War Cabinet

The British Cabinet reorganization announced on November 22 removes Sir Stafford Cripps from the position of Lord Privy Seal, leader of the House of Commons and member of the War Cabinet, and reduces him to the position of Minister of Aircraft Production without War Cabinet rank. Here he succeeds Colonel J. J. Llewellyn who is to come to Washington to take charge of British Supply Missions. Anthony Eden takes Cripps' place as leader of the House of Commons, and Herbert Morrison, Home Secretary, takes Cripps' place in the War Cabinet. Colonel Oliver Stanley becomes Secretary of State for the Colonies, displacing Lord Cranborne, who becomes Lord Privy Seal.

The American press has indicated that Cripps' displacement from the War Cabinet reflects a difference of opinion between himself and Mr. Churchill on the problems of post-war reconstruction. Attention has been called to the statement in the House of Commons by R. R. Stokes, a Labor member, to the effect that "we (the Labor Party) are sincerely disturbed on this side of the House at the sudden appearance of the forces of reaction everywhere." There has been a disposition to connect the demotion of Cripps with Churchill's recent statement at the Lord Mayor's banquet that "We mean to hold our own," a statement which Mr. Willkie declared in his recent broadcast "has shocked the world."

It is worth noting in this connection that Colonel Stanley, who succeeds to the Colonial Office, is the son of the Earl of Derby, a product of Eton and Christ Church and a former member of Mr. Chamberlain's Cabinet, though one of those opposed to Munich. It might be noted further that Herbert Morrison who enters the War Cabinet, although a Laborite, provoked a great deal of criticism from the Left by his suppression of the *Daily Worker* and his arbitrary imprisonment of suspected enemies of the State.

The reaction of the British press, so far as it can be gathered from short cabled résumés, is on the whole surprisingly moderate. The *Manchester Guardian* scents "some disharmonies of personal relations behind this change" but observes that Cripps has not been a conspicuous success as leader of the House. The *Daily Herald*, which is the Labor Party organ, takes the fall of Cripps very calmly and makes much of the promotion of Morrison to the War Cabinet. The *Daily Mail*, which, though professedly independent, leans rather toward the Right, remarks that Cripps "in his growing absorption in post-war problems may well have found himself at variance with cabinet members of all parties."

APPENDIX I

THE AXIS AND THE MEDITERRANEAN AREA

The following consideration of factors affecting possible Axis operations in the Mediterranean area against Turkey and the Iberian Peninsula is based upon studies prepared in the Research and Analysis Branch of the Office of Strategic Services.

TURKEY

The advantages the Axis might hope to gain by invading Turkey would be several and sizable; but in the opinion of most observers, they are likely to be considerably outweighed in the enemy's estimation by the direct and indirect costs of the operation.

Prominent among Axis objectives would probably be the securing of a supply route and air bases to support an attack either on Batum (and thence to Baku) or an attack southeastward against Syria and Iraq; the acquisition of Turkey's chrome-ore stocks and mines; and the control of the Straits.

On the other hand, the Axis would have to face the fact that difficulties of transport, plus the probability of wholesale sabotage, would severely limit the number of divisions which could be supplied along this trans-Turkey route. Moreover, such air bases as the Axis might acquire along Turkey's southern coast would not greatly aid a Syrian invasion, since these fields are few in number and poorly-equipped. Chrome ore is already scheduled to come to Germany as a result of the Clodius Agreement (*The War This Week*, November 12-19, pp. 22-23). As for an attack on Batum and the clearing of the Black Sea, it seems questionable whether the success of either venture would compensate for the opposition of the whole Turkish Army. A thrust from the Trebizond sector toward Baku, through the Trans-Caucasus, would involve a supply line of nearly 1,500 miles overland from the nearest base in Greece, or about 1,200 miles by sea and land from Rumania.

There is a further deterrent factor which applies to Turkey (as it does also to Spain): the Axis may well hesitate before it deliberately converts a neutral "buffer" state into a possible avenue of approach for Allied forces.

Resistance

Few question the willingness of the Turks to resist an Axis invasion, given the present posture of the war. Although the Army, including the General Staff, has been German-trained, its reliability is assured. Marshal Cakmak, the Chief of Staff, is definitely anti-German, as are all of his aides. This attitude can be attributed largely to the devotion of all the present leaders to Ataturk—who maintained that the Turks should never fight a war on the opposite side from England, and who took no pains to hide his dislike of the Germans.

The Turks possess 54 divisions already mobilized, and could probably put in the field about 1,500,000 troops. They are well-equipped with small arms,

machine-guns, and light and medium artillery, but are notoriously weak in tanks, planes, and heavy guns.

Terrain

The terrain of Turkey would offer obstacles to Axis invasion increasing in magnitude as the enemy advanced eastward. European Turkey, apart from man-made fortifications, is wide open to mechanized warfare; an attack southward from the Marmara and eastward from the Aegean would meet few natural barriers. The central plateau of Asia Minor is characterized by much greater topographical difficulty: steep mountains parallel the Black Sea coast, permitting few harbors; and in eastern Hatay the Gávrur Range, and along the Mediterranean the Taurus Range, sharply restrict military movement. As for eastern Turkey, it suffices to note that the mountains there closely resemble the Caucassian chain.

Transit

If the Axis should view Turkey primarily as a supply route to points further east, rather than as a goal in itself, the capacity of the Turkish roads and railroads may well prove disappointing. The highway network might be adequate for an initial invasion, but hardly for the continued supply of any large forces. Estimates of the capacity of rail lines from Haydarpasa, Bandırma, and Izmir to Aleppo and Iskenderon give an average of only 22 trains a day, hauling some 6,100 net tons.

Whether the invaders could maintain even this transport capacity is dubious. The Turks would undoubtedly withdraw or destroy rolling-stock as they retreated, and Germany has no surplus that could easily be spared from the European system. Moreover, the Turkish railway grid is spotted with bridges and tunnels at many points; destruction of these by either the army or guerrillas would be virtually certain. Altogether, it appears entirely possible that, even if the Turkish armies were liquidated in a few months, the Axis would find itself in possession of a transport system quite inadequate for further large-scale operations.

Vital Areas

Though Turkey has been barred by treaty from fortifying her European frontier, she has poured considerable funds into the building of the Çatalca line, about 40 miles west of Istanbul. Reports indicate that the Turks might assign some eight divisions to fight a sacrificial, delaying action on this line. The invaders would be somewhat hampered by the narrowness of the front at this point; on the other hand, the defenders would apparently feel obligated to declare Istanbul an open city, to prevent destruction of its antiquities. The Dardanelles defenses, moreover, are directed largely against sea attack.

The whole Çatalca position, too, could probably be flanked by landings on the Aegean coast. Opposite Mitilene and the Greek and Italian islands, many serviceable beaches and harbors would be available for the debarkation of troops. This area is not unprotected, of course: fixed defenses surround the Gulf of Izmir, and one of the principal military zones covers the Gediz Delta and the road from vulnerable beaches to the north.

Axis operations along the Black Sea littoral would be difficult since, as is pointed out above, this area lacks beaches and harbors. If the Germans could manage to gain ingress, however, and cut off the Zonguldak coal basin from the rest of Turkey,

they would deprive the defenders of annual shipments of 3,000,000 tons. Since Turkey possesses only slim stockpiles of coal elsewhere for its railways, this loss would be a nearly mortal blow to its transport system.

Turkey's southern coast, protected by the Gávrur and Taurus Mountains, would offer few enticements to enemy landing forces. To the east, the Turkish army would be falling back on rugged territory well adapted to its training and its limited equipment.

Air and Naval Bases

Turkey's Navy, unassisted by Allied squadrons, would be of little effectiveness in the event of invasion. The only full-scale naval base is at Izmit.

The Turkish airforce is equally obsolescent, with the exception of a few units recently given her by the Allies. Airfields, however, have been well placed for defense against attacks from the north and west, and are numerous enough to take care of considerable plane reinforcements from the United Nations.

Supplies

Of recent years, Turkey has had to import wheat; reserves, however, are probably sufficient to supply the army and civilians at a minimum level—though probably not any allied forces. Invading Axis armies would be able to capture little grain; most of it has been stored in defensible areas to the east.

THE IBERIAN PENINSULA

The flow of German troops southward through France has come to a halt at the Pyrenees. This barrier may be crossed and a full-scale invasion of Spain initiated, but it appears more likely that certain unfavorable factors will dissuade the Nazis from undertaking the venture: problems of transport and supply would prove difficult; resistance—either formal or guerrilla—would be virtually assured; the Germans would acquire an economic liability; and, lastly, the invasion of Spain would remove a neutral "buffer" state from the Nazis' southwestern flank and invite the United Nations to wrest the peninsula from them as a bridgehead to Europe.

The Franco government has made no secret of its pro-Axis orientation in the past. But it appears extremely unlikely that it will give the Germans any encouragement to cross the border. Spanish army, navy, and air forces, in fact, were partially mobilized last week, and reports circulated in informed quarters that the military command had made up its mind to resist further pressure. The abrupt decline in influence of the pro-Axis Falange may be a further indication of the drift of Madrid's policy.

The apparent change in alignment may be prompted in large measure by Franco's fear that invasion by the Germans, if acquiesced in or invited by the government, would be the signal for the renewal of civil war. Resentment by Spaniards of both left and right would be intense; and the still existent Loyalist opposition might be expected to emerge from underground and direct this hostility toward the foreign invader into general revolt against both the Nazis and Franco's group.

A further consideration which might sway Spain's ruling class to resist would be the growing feeling in some quarters of the Government (prompted by British-

American successes in North Africa and Russian tenacity in the East) that the Axis can no longer hope to win the war. The knowledge, too, that entrance of the Germans would result in complete blockade of Spain by the Allies, with little hope of food-relief from Axis Europe, can be expected to influence Madrid's attitude not a little.

Dread of blockade, indeed, might be a major determinant: years of poor crops have left the Spanish people vitally dependent on imports of cereals and their flour from the Western Hemisphere—\$50,000 tons in 1941, and 400,000 in the first nine months of 1942. Another million tons are scheduled to be delivered from Argentina during the next year and a half; if these imports were cut off as an indirect result of the German invasion, the Spanish masses (already on the border line of starvation) would be in desperate condition.

Spain's position in oil and cotton is almost as critical. The United States has been supplying Spain with substantial tonnages of oil—though not enough to meet her full needs, much less to build up reserves. Deprived of these imports, with replacements from Europe rather dubious, Spain's economy would face a dangerous contraction. Nor would the blockading of Spain's imports of cotton from Argentina and Brazil—which reached 45,000 tons in 1941—make the situation any brighter.

Effectiveness of Spanish Resistance

How serious a factor Spanish opposition to the Nazis might prove would depend largely, of course, on the extent of the agreement (if any) which could be achieved in governmental and army circles upon a decision to resist.

Sporadic action by guerrilla bands could certainly be expected. But though this might impede, it could never prevent the German advance. The regular Spanish Army, though large, would be ill-equipped to battle the Nazis by itself, even if its leaders prove willing to fight; and its best units are understood to be based in the south and in Morocco. If some of these divisions, however, should go over to the Allies, they might become a notable asset at least in the defense of Gibraltar, or in any counter-invasion of the Peninsula.

The German Transport Problem—Overland

Both the Spanish and the Portuguese road and railway networks are inadequate for the transport needs of even a civilian economy; they would be severely strained by the necessities of military traffic. They would, moreover, be vulnerable to sabotage or to aerial bombing at several bottlenecks. Nevertheless, if the Germans are willing to make a major effort to organize all their own and all of Spain's available transport facilities, they would undoubtedly be able to bring in and supply a powerful striking force.

The cardinal fact about overland access to Spain is, of course, the Pyrenean barrier. This forces the bulk of Franco-Spanish traffic to enter at either end of the mountain chain—Irun and Port-Bou—forming two bottlenecks exposed to blockage. Three other considerations limit the effectiveness of the rail system. One is that no direct route adequate for heavy traffic runs from the French border to the southern coast of Spain. The second factor is the difference in gauge between the French and Spanish railways, which necessitates trans-shipment of goods at the frontier—further aggravating the bottlenecks there. The third

consideration is linked with the second: because of this gauge-difference, the Germans will have to depend almost entirely on Spanish and Portuguese rolling stock. How much of it they will be able to capture is problematical. But even if they caught the whole volume, it would scarcely be satisfactory: Portugal's rolling stock is decrepit and obsolescent; Spain's has never recovered qualitatively from the period of the Civil War.

Roads

In consequence, the invading Nazis would have to depend largely upon the Peninsula's highway system. While both Spain's and Portugal's roads are in fair condition, few can take two-way military traffic for any distance. Trucks, moreover, would have to bring their own gas: Iberian reserves are close to the vanishing point.

Capacity of Railroads and Highways

Together, the road and railway networks could bring into the Peninsula each day about one and a half German infantry divisions (plus GHQ units) and their supplies during a period of 10 days—through the passes around Irun and Port-Bou. A smaller additional volume of troops could enter through the intermediate Pyrenean passes—weather permitting.

However, it should be noted that this rate of more than a division and a half a day could not be maintained for very long: the pace would have to slack off soon to allow a large proportion of supplies to enter to maintain troops already transported. Further, the rate of entry does not guarantee a similar rate of distribution; many bottlenecks in the dispersal of troops and supplies within Spain would occur—particularly if part of the invasion force came by sea, congesting communication lines near the ports. Altogether, the maximum number of divisions the Germans could effectively bring in and supply during the first month would probably not exceed thirty. If troop movements were halted after such a period, of course, a stock of supplies could be built up to supply fresh increments of troops. The ultimate maximum that could be supplied in Spain would approximate 70 divisions—and more if the fighting were not very heavy.

Shipment by Sea

If the Nazis could use without too great losses Spain's Mediterranean ports, German incoming traffic could be increased nearly 60 percent. Now that we are established on the Algerian coast, however, this shipping and its port facilities would lie within easy range of our bombers. Reliance on the harbors of north-eastern Spain, on the other hand, would also involve the risk of sinkings on runs from Bordeaux to Santander and Bilbao. Portuguese ports would be unlikely to be used in the invasion of Spain, of course, since the run from Bordeaux would be even longer.

Air Bases

Neither Spain nor Portugal possess air forces capable of more than annoying an invader. Correlatively, an invader would find few first-class airfields for his own use. Spain itself boasts but 44 airdromes with permanent facilities, and only 13 of these have runways of 1,400 yards or more. The only airbase in Portugal

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with concrete runways in Fortela de Sacavon, near Lisbon, though the main military airbase at Ota is a reasonably good field.

The Position of Portugal

Although the majority of the Portuguese people are inclined to favor the cause of the Allies, it is not to be expected that they would or could effectively resist invasion by the Nazis. Portugal's fate will, more likely, be decided in Spain. Realizing this, the Salazar Government apparently plans, in the event of attack, to remove itself to one of its colonies—if it has time.

The strategical position of Portugal, however, is no less important because of its military weakness. In the hands of the Germans, it would provide an excellently-placed base for submarines and raiders to operate against our newly-vital ship lanes to Africa. And in the hands of the Allies, it might offer a conceivable point d'appui for flanking operations against German forces in Spain.

No mountains separate Portugal from Spain, and only the meseta's escarpment divides the main Portuguese plateau from the coastal plain. While this escarpment is abrupt and rugged in the northern two-thirds of the country, the southern third slopes more gradually; armies heading either for Spain or from Spain could maneuver easily through this sector.

APPENDIX II¹

PAKISTAN

Pakistan—"Land of the Pure"—is the name of a proposal adopted by the Moslem League of India at its Lahore session on March 26, 1940, to separate India into distinct nations on the basis of cultural homogeneity.² Those parts of the country in which the majority of the population is Moslem, it was stated, would become "Independent States in which the constituent units shall be autonomous and sovereign". The areas involved are indicated in the resolution as "the Northwestern and Eastern Zones of India". Discussion by various Moslem speakers at that time, and before and after that time, shows that the specific delimitation of the proposed Independent States varies; but the Northwestern Zone would undoubtedly include parts or all of the following regions: the Punjab, the North-West Frontier Province, Baluchistan, Sind, Kashmir, all of which lie in India, and even by some extremists, Afghanistan, which is already a sovereign nation. The Eastern Zone would consist of Bengal or parts of Bengal and Assam (see map).

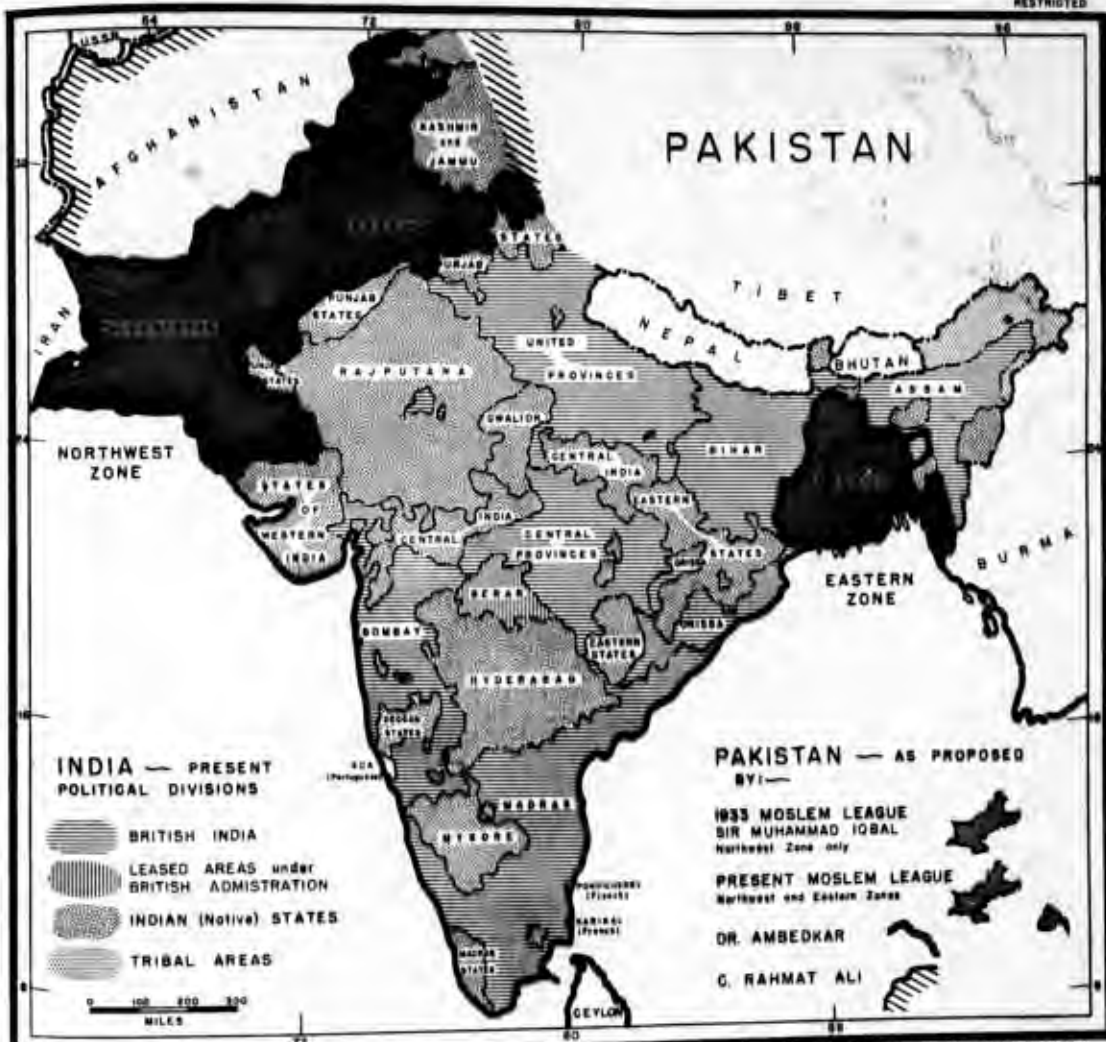
Cripps and Pakistan

The Pakistan scheme has been advocated politically since 1930, but got its greatest encouragement from the Cripps proposals (March 29, 1942) for India

¹ Summary of a memorandum prepared in the Office of Strategic Services.

² The name Pakistan is not used in the Moslem League's formal resolutions advocating independent Moslem states, but it has come to be the popular designation for the scheme and is commonly employed by the press and public speakers.

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MAP NO. 1013, NOVEMBER 25, 1942 REPRODUCED BY THE U.S. DEPT. OF COMMERCE. COMPILED AND DRAWN IN THE BRANCH OF RESEARCH AND ANALYSIS, O.S.S.

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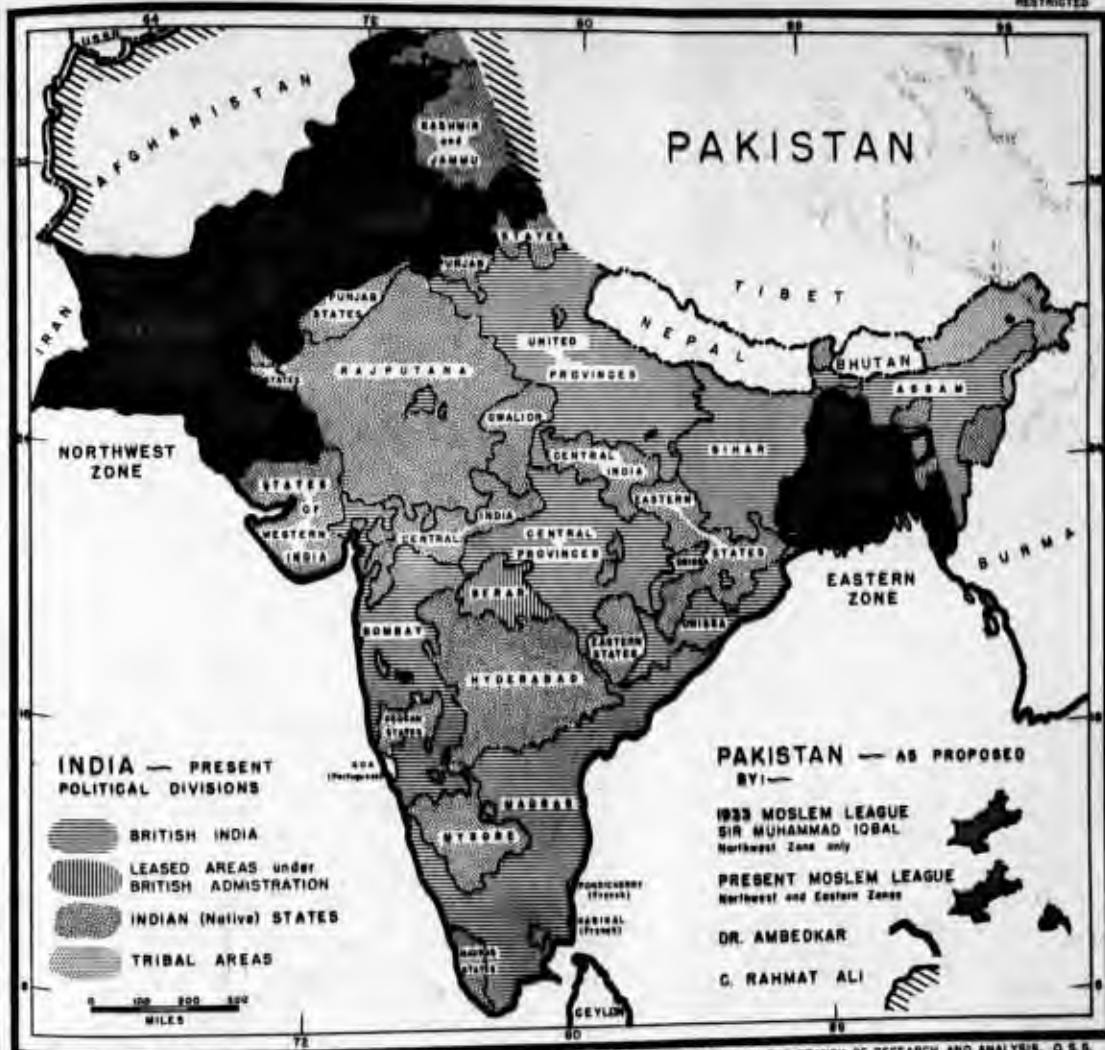
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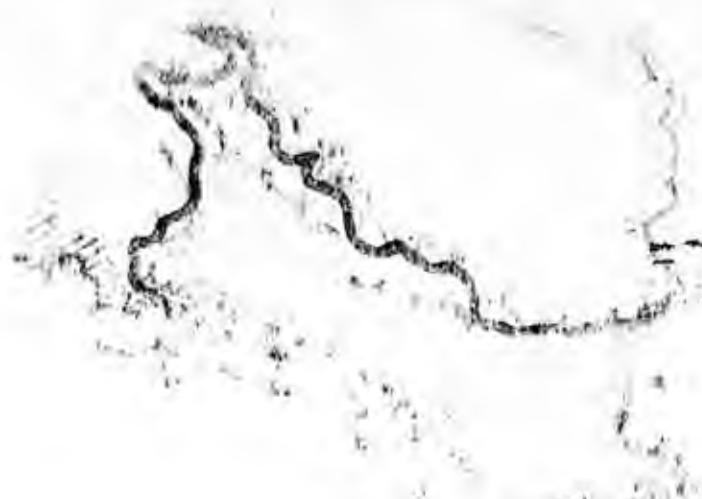
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constitutional reform. These proposals, while providing for a United India Dominion, conceded "the right of any province of British India that is not prepared to accept the new constitution to retain its present constitutional position, provision being made for its subsequent accession if it is so decided. With such non-acceding provinces, should they so desire, His Majesty's Government will be prepared to agree upon a new constitution giving them the same full status as the Indian Union." This status was to include the right of secession from the British Empire. Indian (Native) States were also to have their status readjusted. These various provisions would have made possible a full implementation of the Pakistan idea.

Moslem versus Hindu

The proposal for Pakistan grows out of the hostility which has existed between Moslems and Hindus for 900 years, a hostility deriving from widely different views of religion and social organization, and widely dissimilar art forms and literature. Since the Moslems have a theory of the state which in its strictest application would lead them to use force as a means of establishing Islam throughout the world, they are a constant potential obstacle to Indian national unity, and, although they comprise a minority group, their sense of community is so much stronger than that of the Hindus that they can compete on fairly equal terms.

During the latter part of the 18th and early part of the 19th centuries, Moslem strength in India waned, and, from being political rulers before the rise of British power, they declined to a community of importance second to that of the Hindus. Efforts were made in the middle and latter half of the 19th century to raise the educational and economic level of the Moslems. In the 20th century the conflict between the two groups, which, before then, had been economic, educational, and religious, also became political, as each strove for legislative representation and political patronage under the various constitutional reforms that were granted India in 1909, 1919, and 1935.

Certain sections of the Moslem community, indeed, became convinced that they could never gain equality with the Hindus in a single united Indian nation, but must seek to have the prevailing Moslem sections separated from the prevailing Hindu sections and set up as a separate Moslem state. This proposed state has come to be known as Pakistan. It should be noted, however, that the idea has less vogue in the very parts of India that would comprise this state than it has among Moslems in those districts of India where they are in the minority, a situation which, though paradoxical, may be explicable in terms of the Moslem majorities' relative freedom from fear of Hindu domination.

Jinnah and the League

The promoter of Pakistan is the Moslem League under its president, Mr. Mohammed Ali Jinnah, who represents in his own attitude, according to one close observer, the pride, sense of frustration, and fear of Hindu domination that have led so many Moslems to seek for Pakistan. The strength of the League, however, appears to stem not wholly from purely Moslem support of Pakistan, but from the serious consideration the British have given the proposal. That the British have been inclined to overrate the Moslem League because they wish to see in it a counterweight to the Indian National Congress Party, is often

charged. Certainly, though the movement is strong enough to have exacted concessions from Hindus as well as from the British, many Moslems stoutly oppose Pakistan. Moreover, persistent reports from the Near East indicate that most of the Islamic world is indifferent to the Pakistan idea or actually hostile to it, and that Islam's sympathies lie with the Indian nationalists.

Pakistan and Indian Unity

If the Pakistan proposal should be put into effect, many observers feel it would end by destroying the present administrative unity of India. Every great ruler the country has ever had has hoped to achieve such a unity, not merely to enhance his own power but also to give the country necessary internal stability and put it in a position to ward off an attack from outside. Two great rulers went far toward achieving that unity—Asoka in the 3rd century B. C., and Akbar in the 16th century A. D. The British rule in India has come even nearer to success than these two, the only deficiency in its holdings being that part of Afghanistan adjacent to the Indian border which is needed to provide a "scientific" line of defense.

The British have been intensely proud of the "unification" of India; any plan for India's future which would divide the country would negate their whole previous policy. Such support as they have given to Pakistan must be viewed more as a political expedient than as a serious desire to split India. It would be especially unfortunate, according to neutral students of the problem, to separate the northwestern part of India from the rest: that sector is not economically self-sufficient, even though it may have the mineral resources to make it so in the future. At present it gets help peacefully from the rest of the country; if it were an independent state, it might feel compelled to meet its needs by conquest. History might then repeat itself, with the northwest trying to create an empire of the rest of India. Pakistan, in short, might well prove a disaster for India.

Antidotes

Pakistan is based upon communal distrust, and a final solution of that problem lies in dissolving that distrust. Such a result might come with education and the development of new interests in India, according to one observer. A notable increase in Indian industry, for one thing, might release both energy and enthusiasm which are now consecrated to the perpetuation of religious prejudices.

For the immediate present, the problem is to avoid actual civil warfare, or at least internal disorders, springing from Hindu-Moslem antipathy; and to achieve this object, postponement of the Pakistan crisis is necessary, in the opinion of close observers. Some kind of temporary compromise on the whole "independence" issue, which would grant increased representative responsibility to Indians, seems indicated, if India's attention is ever to be diverted from these internal problems and focussed on the larger task of winning the war.

APPENDIX III

THE AIR OFFENSIVE AGAINST WESTERN EUROPE OCTOBER, 1942¹

I. RAF Night Bomber Operations

The scale of night operations by the RAF Bomber Command declined sharply during October. The total number of aircraft dispatched, 1,753, was the lowest for any month since February of this year. Aircraft were sent against bombing objectives on only ten nights, and no operations took place during the last seven nights of the month. The average number of planes dispatched per night of operations was 175, the fourth lowest of the year. The maximum number of bombers sent on a single night was 289—below the average number of planes employed in June and July. A recapitulation for the year is shown in the following table:

TABLE I.—Recapitulation: RAF night bomber operations

Month	Total aircraft dispatched ¹	No. of nights of operations ²	Average no. aircraft per night of operations	Average percent of aircraft reaching primary target		Average percent casualties	
				Germany	France	Germany	France
Jan.....	1,998	19	105	67	75	3.7	0.7
Feb.....	810	11	74	65	53	1.1	1.4
Mar.....	1,769	9	197	75	90	4.1	0.7
Apr.....	3,321	18	185	68	85	3.9	1.9
May.....	2,160	10	216	76	43	4.8	2.7
June.....	4,294	14	307	76	-----	4.8	-----
July.....	3,394	11	304	78	-----	4.1	-----
Aug.....	2,060	12	172	74	-----	6.3	-----
Sept.....	2,973	11	272	77	-----	5.0	-----
Oct.....	1,753	10	175	78	-----	4.5	-----

¹ Nights of operations when less than 25 planes were dispatched are not included.
² Three night raids on Italy are included in these averages.

Seventy-eight percent of the bombers dispatched claimed to have located and bombed the primary target. This proportion has not varied widely during the past eight months. The loss rate (bombers missing in action), which had been comparatively high in August and September, fell to 4.5 percent in October (Table I).

Three long-distance attacks were directed against Genoa and Milan on October 22-24 as part of the strategy of the United Nations offensive in North Africa. The remainder of the raids were against objectives in Germany. The cities attacked and the numbers of planes dispatched are given below. Flight distances indicated are only approximate, since they do not measure the circuitous routes generally flown.

¹ Memorandum prepared in the Research and Analysis Branch of the Office of Strategic Services.

TABLE II.—Flight distances

Date	City	Number of planes dispatched	Great Circle (miles from London)
<i>October</i>			
1	Wismar	78	495
	Flensburg	27	427
	Lubeck	25	471
2	Krefeld	188	269
5	Aachen	257	254
6	Osnabruck	237	334
12	Wismar	40	495
12	Wismar, Dornier Factory	19	495
13	Kiel	288	456
15	Cologne	289	334
22	Genoa	112	651
23	Genoa	122	651
24	Milan	71	576

Ratio of Incendiaries to High Explosives

Roughly 3,000 tons of bombs were dropped on objectives in Germany and Italy in October, more than half incendiaries. During all the 1942 night raids, more than 30,000 tons of bombs have been released over Germany; more than 50 percent of this total have been high explosive bombs. The proportion between high explosive and incendiary bombs employed by the RAF has varied widely in different raids, but in general there has been an increase in the use of incendiaries.

This change of ratio is in accord with present RAF area bombing strategy. Large German cities may be divided into zones on the basis of house construction and the nature and concentration of the industrial and transportation facilities. The heaviest weight of attack is levelled at the compact residential areas in the center of the typical German city, against which incendiary bombs are particularly effective.

TABLE III.—Percent of total weight of bombs dropped¹

Date	H. E.	Incendiaries	Date	H. E.	Incendiaries
Jan	93	7	June	35	65
Feb	100	0	July	65	35
Mar	72	28	Aug	56	44
Apr	56	44	Sept	50	50
May	43	57	Oct	43	57

¹ These figures apply to raids of 50 planes or more against objectives in Germany.

Proportion of "Block-busters"

There has been a striking increase in the use of the 4,000-pound high explosive bomb. This bomb, with a relatively high proportion of explosive to casing, is

designed not to penetrate deeply but to produce an intense lateral blast. In conjunction with an incendiary attack, it is useful in breaking in doors and windows and creating draughts which spread the fires. The following figures show the trend in the employment of two-ton bombs:

TABLE IV.—4,000-pound bombs as percent of total high explosives dropped (by weight)

Percent		Percent	
January	6	June	26
February	8	July	39
March	12	August	39
April	15	September	49
May	27	October	59

Other bombs, even heavier in weight, were used more or less experimentally during October. A 4,000-pound incendiary bomb has been dropped on a few occasions in past weeks (the largest incendiary bomb previously used weighed 250 pounds). Several 8,000-pound high-explosive bombs have also been dropped since September of this year.

Other Activities

Night sea-mining activities in October remained at the high level of the preceding months. A total of 456 planes were dispatched on extensive mine-laying operations over a wide area from the Bay of Biscay to the Baltic Sea on 18 nights.

Distribution by air of propaganda leaflets declined in importance during October; a total of only 20 planes was sent out on three nights over cities in France.

11. Daytime Operations

A. United States Army Air Force.—The Eighth Bomber Command of the USAAF engaged in two large-scale daylight raids and one abortive operation in October. The Fortress and Liberator raids on the Meaulte Air Frame Factory and the Fives Steel and Engineering Works at Lille, the eleventh and twelfth bombings since the American Air Force began independent operations in mid-August, were the largest yet undertaken by American aircraft in Britain.

On October 2, 73 bombers were dispatched: 43 Fortresses to Meaulte, 12 Bostons against shipping in Le Havre, 12 Fortresses on a diversionary sweep near Cayeux, and 6 Fortresses against the GAF aerodrome at St. Omer. Twenty-two fighter squadrons accompanied the bombers, including 3 squadrons of P-38's and 5 squadrons of Eagle Spitfires. Attacks by German planes resulted in one Focke-Wulf-190 destroyed and 12 probably destroyed, without loss to the bombers.

The record attack on Lille of October 9 involved a force of 81 Fortresses and 22 Liberators. Seven additional Fortresses were sent on a diversionary sweep of the Cayeux area. The bombers released 500-pound H. E. bombs and 250-pound incendiaries on the steel and engineering works from an altitude of 21,000–24,000 feet. Using the fighter escort primarily for tactical purposes, the Fortresses and Liberators successfully defended themselves against the attacks of the *Luftwaffe* and destroyed 48 German planes, probably destroyed 38 more, and damaged 19. Only 4 American bombers were lost.

SECRET

In a third operation, most of the 90 Fortresses and Liberators which were dispatched with fighter escort against Lorient returned before reaching the coast, because of poor visibility. Twenty-one Fortresses proceeded unescorted, and were continuously attacked by German planes. Three B-17's were reported missing, while German losses were 9 destroyed, 6 probably destroyed and 6 damaged.

The monthly total of USAAF losses in combat was 7 bombers. German fighter-plane strength in the West was reduced by the destruction of 58 planes, with 68 probably destroyed and 38 additional planes damaged.

B. Royal Air Force.—Bomber Command daylight operations were undertaken on 17 occasions and were featured by raids of 88 Lancasters each on Le Creusot and Milan. The 88 unescorted Lancasters which bombed the Schneider Works at Le Creusot flew a circuitous route, involving a round-trip distance of some 1,700 miles, to avoid enemy fighter concentrations. The attack, from an altitude of 4,000-6,000 feet, lasted for only 6½ minutes during which 114 tons of H. E. and 39 tons of incendiaries were dropped. Only one bomber was lost.

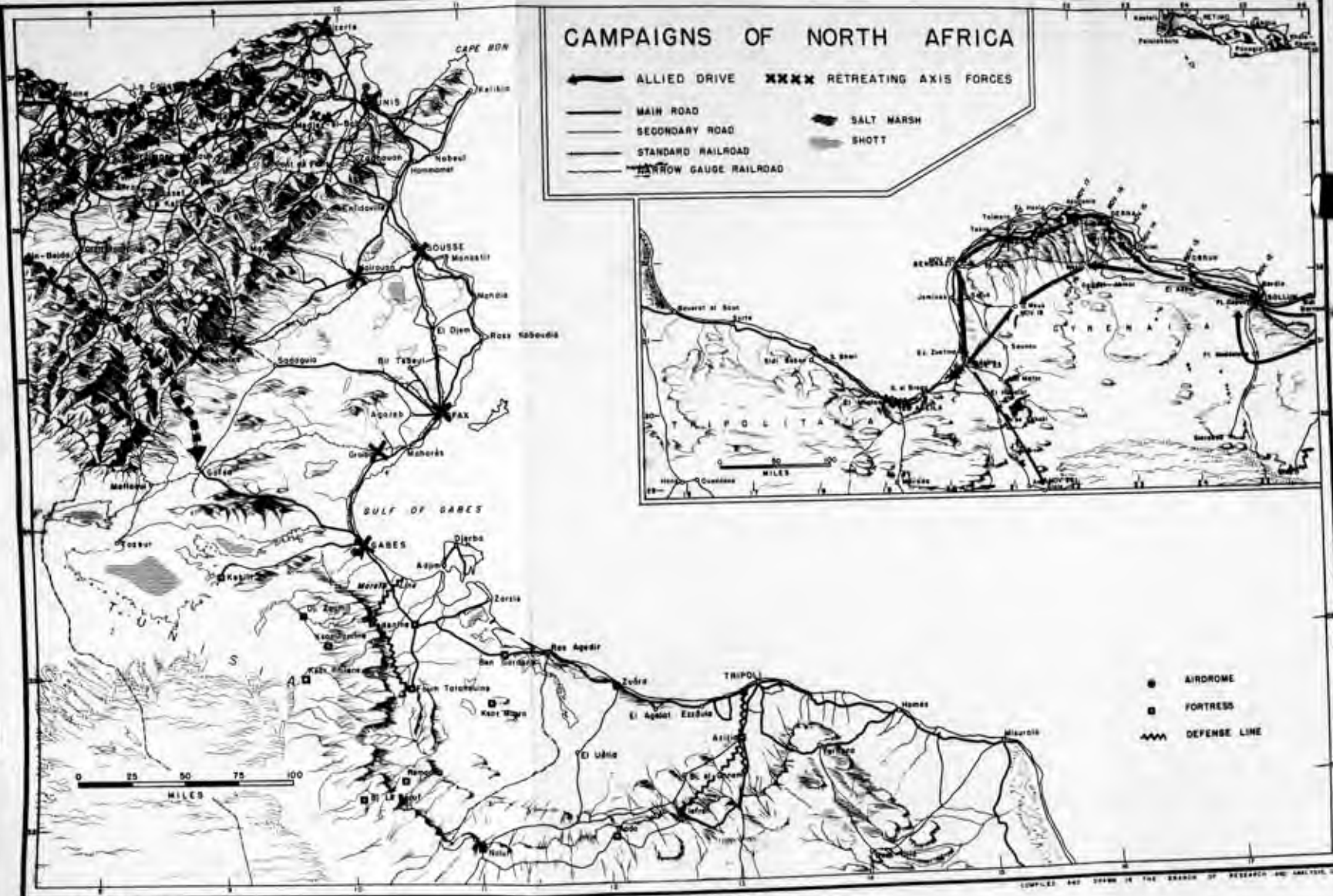
The Milan raid, for which an escort was provided to the French coast, was conducted with the loss of three planes. The Lancasters attacked at altitudes ranging from 100 to 4,000 feet, dropping 4,000-pound bombs and incendiaries.

A total of 79 of the fast, light Mosquito bombers were dispatched during October. The Mosquitoes, generally operating singly, attacked specific industrial and military objectives in France, Belgium, Holland, and Germany at altitudes of from 50 to 27,000 feet. Seventy-three Bostom bombers and 62 Wellingtons were also dispatched during the month, generally on precision bombing missions.

The Fighter Command of the RAF was actively engaged in providing escorts for the bomber sorties. American P-38's and Eagle Spitfires joined in the diversionary sweeps and regular fighter sweeps undertaken by British Spitfires on several occasions. Spitfires were also employed in harassing attacks against hangars and trains in Occupied France and as interceptors in the German daylight raid on Canterbury.

CAMPAIGNS OF NORTH AFRICA

ALLIED DRIVE RETREATING AXIS FORCES
 MAIN ROAD SALT MARSH
 SECONDARY ROAD SHOTT
 STANDARD RAILROAD
 NARROW GAUGE RAILROAD



- AIRDROME
- FORTRESS
- DEFENSE LINE

MAP NO. 1421, NOVEMBER 20, 1942

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