

**HEARINGS REGARDING COMMUNIST ESPIONAGE IN THE
UNITED STATES GOVERNMENT**

HEARINGS
BEFORE THE
COMMITTEE ON UN-AMERICAN ACTIVITIES
HOUSE OF REPRESENTATIVES
EIGHTIETH CONGRESS
SECOND SESSION

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NOTE.—These hearings begin with page 501, in accordance with the system of consecutive numbering adopted by the committee during the second session, Eightieth Congress. Page Nos. 1-500 are contained in Hearings on Proposed Legislation to Curb or Control the Communist Party of the United States.

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HEARINGS REGARDING COMMUNIST ESPIONAGE IN THE UNITED STATES GOVERNMENT

SATURDAY, JULY 31, 1948

UNITED STATES HOUSE OF REPRESENTATIVES,
COMMITTEE ON UN-AMERICAN ACTIVITIES,
Washington, D. C.

The committee met, pursuant to call, at 10:45 a. m., in the committee room of the Committee on Un-American Activities, Hon. J. Parnell Thomas (chairman) presiding.

Committee members present: Representatives J. Parnell Thomas (chairman), Richard M. Nixon, John McDowell, Karl E. Mundt, John E. Rankin, J. Hardin Peterson, and F. Edward Hébert.

Staff members present: Robert E. Stripling, chief investigator; Louis Russell, William Wheeler, Donald T. Appell, and Robert Gaston, investigators; Benjamin Mandel, director of research; and A. S. Poore, editor, for the committee.

The CHAIRMAN. The meeting will come to order.

The record will show that those present are Mr. Mundt, Mr. McDowell, Mr. Nixon, Mr. Rankin, Mr. Peterson, Mr. Hébert, and Mr. Thomas, and a quorum is present.

Mr. Stripling, the first witness.

Mr. STRIPLING. The first witness, Mr. Chairman, will be Miss Elizabeth T. Bentley.

Miss Bentley, will you stand and be sworn?

The CHAIRMAN. Miss Bentley, please stand and raise your right hand.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Miss BENTLEY. I do.

The CHAIRMAN. Mr. Stripling, before you start asking questions, the Chair would like to make a short statement.

Over a year ago this committee started to investigate espionage in the Government. We have had many witnesses in executive session, all of whom testified on this subject.

The testimony received by us confirms in great detail the conclusions drawn by your investigative staff, and confirms the fact that there is a tremendous need for such an investigation and exposure and a conviction in many cases in this country.

We regret that the matter has not been prosecuted long before this. We believe that the matter should be prosecuted without further delay, and the committee recommends that a special grand jury be convened in Washington, D. C., in order to give special attention to the matter of espionage in the Government, and to bring the matter to an early conclusion.

HEARINGS REGARDING COMMUNIST ESPIONAGE IN THE UNITED STATES GOVERNMENT

WEDNESDAY, AUGUST 18, 1948

UNITED STATES HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE OF THE
COMMITTEE ON UN-AMERICAN ACTIVITIES,
New York City, N. Y.

EXECUTIVE SESSION ⁸

The subcommittee met, pursuant to notice, at 11:10 a. m., in room 1400, Hotel Commodore, New York City, N. Y., Hon. Richard M. Nixon presiding.

Committee members present: Representative Richard M. Nixon.

Mr. NIXON. Let the record show that this is a meeting of the subcommittee of the Committee on Un-American Activities, in the Commodore Hotel, on the 18th of August 1945. The member present is Mr. Nixon.

The witness will be Mrs. Alger Hiss.

Mrs. Hiss, will you be sworn, please?

Mrs. HISS. Must I swear?

Mr. NIXON. No; you can affirm, if you like.

Mr. HISS. Please stand.

Mr. NIXON. Whichever you prefer.

Mrs. HISS. I much prefer to affirm.

Mr. NIXON. Either one is standard practice.

Do you affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Mrs. HISS. I do.

TESTIMONY OF MRS. ALGER HISS, ACCOMPANIED BY ALGER HISS AND CHARLES DOLLARD

Mr. NIXON. Mrs. Hiss, you are the wife of Alger Hiss?

Mrs. HISS. Yes.

Mr. NIXON. And you were living with Mr. Hiss in Washington, D. C., during the years 1934 to 1937?

Mrs. HISS. Yes; earlier than that.

Mr. NIXON. I understand that. These are the years we are interested in.

Now, at any time during the period 1934 to 1937 did you become acquainted with a person known to you by the name of George Crosley?

Mrs. HISS. I did.

⁸ Testimony taken in executive session and released during the public hearing, August 25, 1948.

Mr. NIXON. Will you describe in your own words as well as you can recollect how you first became acquainted with the man, your recollection of the acquaintanceship?

Mrs. HISS. Well, I don't think I became acquainted with him——

Mr. NIXON. I am only interested in what you know yourself.

Mrs. HISS. My husband did, and through a business relationship I think it would be fair to call it. I don't think I can really be said to have been acquainted with him at all.

Mr. NIXON. I see.

When did you first meet him?

Mrs. HISS. I have no idea. I don't remember. I am sorry.

Mr. NIXON. Do you recall whether it was the year 1934 or 1935?

Mrs. HISS. If I could just remember where I lived which year.

Mr. NIXON. That would possibly be a help. Could you recall where you were living at the time you first met this man?

Mrs. HISS. I don't remember first meeting him, so that isn't any help. What I was trying to remember was where I lived which year. I think it must have been in 1934.

Mr. NIXON. Do you recall at what time of the year it was—summer, winter, spring, or fall?

Mrs. HISS. No; I don't.

Mr. NIXON. I wouldn't ask you to remember the month, because it was a long time ago.

Mrs. HISS. I am sorry, I just don't. I just haven't the vaguest——

Mr. NIXON. Do you remember the occasion of the meeting? Was it in your home that you met him for the first time?

Mrs. HISS. No; I am sorry; I don't remember that. I think it may have been.

Mr. NIXON. Well, have you ever seen this man in your home?

Mrs. HISS. Yes; I have seen him in my home.

Mr. NIXON. Well, can you recall the occasions of those meetings?

Mrs. HISS. I have a vague recollection of this man and his wife looking at the apartment which we sublet to them, and I have a very distinct memory of their spending 2 or 3 days in our house before they moved into the sublet apartment.

Mr. NIXON. And do you recall when those 2 or 3 days were spent approximately?

Mrs. HISS. Well, they must have been in the summer of 1935.

Mr. NIXON. And after they had spent the 2 or 3 days with you they moved into this sublet apartment?

Mrs. HISS. That is right.

Mr. NIXON. And do you recall approximately how long they stayed in your apartment?

Mrs. HISS. Well, several months.

Mr. NIXON. Several months during the summer?

Mrs. HISS. Yes.

Mr. NIXON. Of 1935?

Mrs. HISS. I think so. As I recall. It all seems very long ago and vague.

Mr. NIXON. Of course. Can you describe this man for us as well as you remember him?

Mrs. HISS. I have a very dim impression of a small person, very smiling person—a little too smiley, perhaps. I don't recollect the face, but a short person.

Mr. NIXON. Do you recall taking a trip from Washington to New York with him and Mr. Hiss?

Mrs. HISS. I don't really recall it. My husband spoke to me about that, and I don't recall it.

Mr. NIXON. Do you recall the last time you saw this man?

Mrs. HISS. No; I don't recall it at all. I am afraid the only impression I have was of being perhaps a little put out.

Mr. NIXON. Put out about what?

Mrs. HISS. Well, I think the polite word for it is probably I think he was a sponger.

Mr. NIXON. In other words, he stayed at your house, you mean, and—

Mrs. HISS. I don't know whether you have ever had guests, unwelcomed guests, guests that weren't guests, you know.

Mr. NIXON. He stayed at your house—you are speaking of the 3-day period that he stayed there?

Mrs. HISS. I am not sure it was 3 days. It certainly feels like more, but I don't know. It was a short while.

Mr. NIXON. But the impression from that 3-day period was that he was a sponger; is that what you mean?

Mrs. HISS. I suppose I was busy and tired and it seemed a bother and inconvenience.

Mr. NIXON. That completes the testimony. I have no further questions.

Mrs. HISS. Well, I am glad of that, and I have been very glad to come.

Mr. NIXON. I appreciate your coming.

Mrs. HISS. I am glad it has been so quiet, because that was really what I had a strong distaste for. I would like to thank you for our just being together.

Mr. HISS. I greatly appreciate your courtesy, Mr. Nixon.

(Whereupon, at 11:20 a. m., a recess was taken until 11:45 a. m., at which time the subcommittee reconvened for further proceedings, the transcript of which will be found in another volume as of this date and place.)

Mr. BRAVERMAN. I do include the fifth amendment.

Mr. STRIPLING. Mr. Chairman, I have certain information here which I do not wish to introduce at this time. I want to introduce it in open session. I have no further questions.

I recommend that this witness also be cited for contempt of the committee.

The CHAIRMAN. That will be taken into consideration.

Mr. Vail.

Mr. VAIL. I have no questions, but I would like to comment briefly on Mr. Braverman's testimony. When a question is asked of any sound and patriotic American as to whether or not he is a member of the Communist Party, it has been our experience that he indignantly answered, "No," and when we find that individual who seeks refuge behind certain provisions of the Constitution refuses to answer that point-blank question we have no alternative but to believe, to assume, that that individual is a member of the Communist Party, and you leave us, Mr. Braverman, with no alternative but that belief.

You are satisfied to leave us with that impression; is that correct?

Mr. BRAVERMAN. Mr. Vail, I repeat, the reason I have been subpoenaed to this committee is because on two occasions I have represented witnesses before this committee, and this committee has seen fit on each occasion to attempt to put me under oath in front of my witness, has attempted to then go into my personal, private, and political life which is not at all material to the inquiry under investigation by this committee, and that is my answer.

Mr. VAIL. No further questions.

The CHAIRMAN. Mr. McDowell.

Mr. McDOWELL. I have no questions, but I would like to tell Mr. Braverman that there have been literally dozens and dozens of lawyers who have appeared here, some of them Communists, suspected Communists, who declined to answer for various reasons, self-incrimination, and so forth. They were not sworn, and they were not asked to be sworn. The caliber of the answers of Mr. Rosen, your client, raises grave suspicion in the minds of the committee that a conspiracy to commit contempt has been established. This committee and all other committees of Congress will continue to have all the respect for the efforts of the law and lawyers, attorneys, but it is not beyond the bounds of possibility that an attorney, too, is a traitor to his country. That is all I have.

The CHAIRMAN. Do you have any more questions?

Mr. STRIPLING. No, sir.

The CHAIRMAN. Does the chief investigator want this witness to remain under subpoena?

Mr. STRIPLING. Yes, sir.

The CHAIRMAN. All right, Mr. Braverman, you will remain under subpoena, and you are excused now.

Mr. STRIPLING. Mr. Chairman, on August 28, 1948, the committee issued a report entitled "Interim Report on Hearings Regarding the Communist Espionage in the United States Government." I ask that this report be made a part of this record at this time.

The CHAIRMAN. Without objection, it is so ordered. The meeting will now adjourn, to reconvene upon notice by the chairman.

(Whereupon the meeting adjourned.)

INTERIM REPORT ON HEARINGS REGARDING COMMUNIST ESPIONAGE IN THE UNITED STATES GOVERNMENT

It has been the established policy of the House Committee on Un-American Activities since its inception that in a great, virile, free republic like the United States, one of the most effective weapons against un-American activities is their continuous exposure to the spotlight of publicity. It has also been our consistent position that the people of the United States—to whom this Government rightfully belongs—are entitled to a clear picture of the extent of disloyal and inimical influences working secretly to destroy our free institutions whether they operate from within or without the Government.

The current investigations and hearings dealing with past and present Communist espionage activities in Government are therefore strictly in conformity with what the members of the House Committee on Un-American Activities conceive to be their duty and responsibility to undertake.

It is essential to the success of our efficient Federal Bureau of Investigation that it must not disclose all of its sources of information and methods of operation. It is also a fact—although one which is sometimes overlooked by the ill-informed—that the FBI is a fact-finding and investigating agency and not an exposure agency. Its duties are to find and record the facts so they will be available to police officers, law-enforcement officials, and the prosecuting agencies of Government. It is not a vehicle for reporting to the public on the extent of nefarious activities. It is under the direction of the Attorney General of the United States, and its contacts with the public and with Congress are determined by policies established by him.

In the United States we sometimes utilize the method of gathering and presenting evidence which is represented by the grand jury. Grand-jury proceedings are conducted in the greatest of secrecy. Jurors in these proceedings sit as judges of the evidence submitted, but their decisions as to guilt or to innocence are made only after the officials conducting the proceedings ask them for a verdict as to specific points and on specific questions. In the case of a Federal grand jury, it therefore rests with the Attorney General as to what verdicts are sought, as to what evidence is submitted, and as to what disposition is to be made of the material presented. Until a grand jury has issued either an indictment or a no-true bill, there is no means of establishing either the guilt or the innocence of the people before it on the basis of what goes on behind its tightly closed doors. At best, the grand jury is not a vehicle for reporting to the public on the extent of un-American activities in a free republic.

As contrasted with the FBI and the grand jury, the House Committee on Un-American Activities has a separate and a very special responsibility. It functions to permit the greatest court in the world—the court of American public opinion—to have an undirected, uncensored, and unprejudiced opportunity to render a continuing verdict on all of its public officials and to evaluate the merit of many in private life who either openly associate and assist disloyal groups or covertly operate as members or fellow travelers of such organizations. It is as necessary to the success of this committee that it reveal its findings to the public as it is to the success of the FBI that it conceal its operations from the public view.

The functioning of the Communist espionage rings in Government provides a dramatically vivid illustration of the functions of the three foregoing public institutions in their rendering of the service they are created to perform.

The FBI functions to find and assimilate all of the facts available to that organization and to make them available to the prosecuting agencies of the Federal Government. The Federal grand jury functions to consider the evidence selected from these facts by the Attorney General and to pass judgment upon whatever verdicts it is asked to make by the Attorney General. The House Committee on Un-American Activities functions to alert the public concerning the existence and operation of these espionage practices, and to point up and propose the necessary new legislation to provide our country with greater safeguards and to enable it to protect itself against the constantly changing tactics and practices of world-wide and world-dominated communism and its American ramparts.

We are an arm of the lawmaking branch of our Government. It is our job to explore, to study, and to investigate, and to determine if new laws are needed or present laws need strengthening. In pursuing this all-important function, full inquiry is essential, which is the historic and special prerogative of the legislative branch of our Government. The duties and functions of the Committee on

Un-American Activities are somewhat unique among the committees of Congress, which are principally concerned with matters of commerce, taxes, and the operation of the Federal Government, but there is delegated to us the function of investigating subversive influences which seek to destroy the Government and institutions of the United States.

In dealing with groups and individuals that engage in this subversive conspiracy, the committee has the difficult task of pursuing its inquiry through regulations and procedures which, when formulated, were meant to apply only to law-abiding citizens of the country.

It is noteworthy, for example, that not until the House Committee on Un-American Activities began its current hearings on the subject did the general public have any knowledge that the now established and disclosed Communist espionage activities had reached into vital positions of high authority in Government. Not until these hearings began did the general public or even the average Member of Congress have the evidence upon which to base decisions concerning the new legislation essential to our national security under prevailing conditions. Not until these hearings began did the people to whom this Government belongs have any direct evidence as to the men and methods being employed to subjugate our freedom to the tyranny of a foreign totalitarian power. The false security of complacent ignorance is much worse than having either no security or no complacency at all.

It is also true that in many instances the crimes of treason and espionage are so difficult to punish by conviction because of technical devices and the necessity of so tightly defining these crimes, that if near treason and "virtual espionage" and "cold-war treason or espionage" are to be safeguarded against it is imperative that not only must the power of public opinion be marshaled against these disloyal and self-serving practices but legislation must be enacted which will provide appropriate punishment for these specific derelictions. To do less than that is to deny to the people generally the protection and security they have a right to expect from alert public officials.

REASONS FOR PUBLIC HEARINGS

Questions are sometimes raised both by chronic critics of this committee and by sincere observers as to whether holding public hearings on questions of loyalty, espionage, and Communist conspiracy ever serves the public interest. These people hold that our committee should screen witnesses carefully in secret executive sessions and sift the testimony, releasing to the public only such portions as the committee decides it should see or hear.

It is argued by those adhering to this position that this committee, in its zeal to protect the reputations and feelings of innocent people whose names may occasionally be injected into public hearings, should operate in large part after the manner of a grand jury and in utmost secrecy, withholding from the public the steps by which evidence is accumulated and its decisions made. This committee yields to nobody in its earnest desire to protect the innocent and to expose the guilty.

It is the established policy of this committee to protect in every feasible manner the reputations and the sensibilities of innocent citizens. It is also an established fact that in conducting public hearings—and this committee deplors the use of star-chamber, secret sessions unless public necessity requires them—an occasional mention of some innocent citizen in connection with a nefarious practice will inevitably occur. When it does, we provide every opportunity for those mentioned to clear themselves of all suspicion in the same forum before the same publicity media as in the case of the original allegations. In addition we have frequently inserted memoranda in our files to protect those innocently accused elsewhere from unjust attack or suspicion.

At times, however, your committee is confronted with the necessity of running the risk that a few innocent people may be temporarily embarrassed or the risk that 140,000,000 innocent Americans may be permanently enslaved. When necessary to resolve the relative merits of two such risks as that, your committee holds to the position that its primary responsibility is to that great bulk of our American population whose patriotic devotion to our free institutions deserves the greatest diligence in being protected against those who would utilize our Bill of Rights and our American freedoms to destroy permanently these great safeguards of personal liberty and human dignity.

There is another very vital and important reason why public hearings such as are held by this committee provide an indispensable supplement to the off-the-

record investigations and activities of such institutions as the FBI and the grand jury. It is illustrated most recently by the controversial features of the Chambers-Hiss testimony. Despite the fact that Alger Hiss had been interrogated as to his connections with communism and Communists by at least two outstanding Americans, Secretary of State Byrnes and John Foster Dulles, acting independently, and by other Government officials, none of these interrogatories had established the relationship of Hiss and Chambers until our committee held its public hearings on this case. In fact, it was not until our public hearings had proceeded for some time that it was definitely established that Alger Hiss and Whittaker Chambers knew each other personally and rather intimately during the precise period of time that Whittaker Chambers testified that their associations took place. Mr. Hiss testified that he knew Whittaker Chambers by the name of "George Crosley" but he positively identified the man known today as Whittaker Chambers as the man he knew. He testified unequivocally that he not only knew Chambers (by name of Crosley) but that he let him use his apartment without ever receiving payment for it, that he loaned Chambers money, that he loaned or gave him an automobile, and that he had even kept Mr. and Mrs. Chambers and their baby in his own home overnight on one or more occasions. Thus the connection between Alger Hiss and Whittaker Chambers, as a man-to-man relationship, stands without challenge confirmed by the testimony of both men and the public hearings held by this committee. This fact had never been established by other investigations.

It should also be noted that the stark fact that Alger Hiss and Whittaker Chambers, a self-confessed paid Communist functionary and espionage agent, were acquainted with each other and did have numerous transactions and associations together, is of far greater significance under the circumstances than whether Chambers was known to Hiss by the name of "Carl" or of "George Crosley." This fact has been established without challenge for the record by the public hearings of this committee, although through the years it had been established by no other investigation.

Hiss will be given every opportunity to reconcile the conflicting portions of his testimony, but the confrontation of the two men and the attendant testimony from both witnesses has definitely shifted the burden of proof from Chambers to Hiss, in the opinion of this committee. Up to now, the verifiable portions of Chambers' testimony have stood up strongly; the verifiable portions of the Hiss' testimony have been badly shaken and are primarily refuted by the testimony of Hiss versus Hiss, as the complete text of the printed hearings will reveal.

IDENTIFICATION OF THE ESPIONAGE GROUPS

Elizabeth T. Bentley, in testimony before the committee, identified two Communist espionage groups composed of Government employees and Government officials in Washington, D. C. Information supplied from the files of the Federal Government by members of these espionage groups was conveyed to New York City and turned over to agents of the Soviet Union, according to Miss Bentley. The members of these groups, as identified by Miss Bentley, and their employing Federal agencies for the period concerned in the testimony, are as follows:

SILVERMASTER GROUP

Nathan Gregory Silvermaster, Director of Labor Division, Farm Security Administration; detailed at one time to Board of Economic Warfare.

Solomon Adler, Treasury Department; agent in China.

Norman Bursler, Department of Justice.

Frank Coe, Assistant Director, Division of Monetary Research, Treasury; special assistant to United States Ambassador in London; assistant to the Executive Director, Board of Economic Warfare and successor agencies; Assistant Administrator, Foreign Economic Administration.

Lauchlin Currie, administrative assistant to the President; Deputy Administrator of Foreign Economic Administration.

Bela Gold (known to Miss Bentley as William Gold), assistant head of Division of Program Surveys, Bureau of Agricultural Economics, Agriculture Department; Senate Subcommittee on War Mobilization; Office of Economic Programs in Foreign Economic Administration.

Mrs. Bela (Sonia) Gold, research assistant, House Select Committee on Interstate Migration; labor-market analyst, Bureau of Employment Security; Division of Monetary Research, Treasury.

Abraham George Silverman, director, Bureau of Research and Information Services, United States Railroad Retirement Board; economic adviser and chief of analysis and plans, Assistant Chief of Air Staff, Matériel and Services, Air Forces.

William Taylor, Treasury Department.

William Ludwig Ullmann, Division of Monetary Research, Treasury; Matériel and Service Division, Air Corps Headquarters, Pentagon.

PERLO GROUP

Victor Perlo, head of brand in Research Section, Office of Price Administration; War Production Board; Monetary Research, Treasury.

Edward J. Fitzgerald, War Production Board.

Harold Glasser, Treasury Department; loaned to Government of Ecuador; loaned to War Production Board; adviser on North African Affairs Committee in Algiers, North Africa.

Charles Kramer (Krevitsky), National Labor Relations Board; Office of Price Administration; economist with Senate Subcommittee on War Mobilization.

Solomon Lischinsky, United Nations Relief and Rehabilitation Administration.

Harry Magdoff, Statistical Division of War Production Board and Office of Emergency Management; Bureau of Research and Statistics, WPB; Tools Division, WPB; Bureau of Foreign and Domestic Commerce.

Allan Rosenberg, Foreign Economic Administration.

Donald Niven Wheeler, Office of Strategic Services.

Miss Bentley also testified that Irving Kaplan, an employee of the War Production Board at the time, was associated with both groups, paying dues to the Perlo group and submitting information to the Silvermaster group. She identified the late Harry Dexter White, then Assistant Secretary of the Treasury, as another individual who cooperated with the Silvermaster group.

UNATTACHED INDIVIDUALS

Miss Bentley further testified that there were certain individuals employed in the Government who cooperated in obtaining information from the files of the Government for the use of Russian agents but who were not actually attached to either the Silvermaster or Perlo groups. These individuals, as named by Miss Bentley, and the governmental agency with which they were employed during the period concerned in the testimony, are as follows:

Michael Greenberg, Board of Economic Warfare; Foreign Economic Administration; specialist on China.

Joseph Gregg, Coordinator of Inter-American Affairs, assistant in Research Division.

Maurice Halperin, Office of Strategic Services; head of Latin American Division in the Research and Analysis Branch; head of Latin American research and analysis, State Department.

J. Julius Joseph, Office of Strategic Services, Japanese Division.

Duncan Chaplin Lee, Office of Strategic Services, legal adviser to Gen. William J. Donovan.

Robert T. Miller, head of political research, Coordinator of Inter-American Affairs; member, Information Service Committee, Near Eastern Affairs, State Department; Assistant Chief, Division of Research and Publications, State Department.

William Z. Park, Coordinator of Inter-American Affairs.

Bernard Redmont, Coordinator of Inter-American Affairs.

Helen Tenney, Office of Strategic Services, Spanish Division.

William Remington, of the Department of Commerce, was mentioned by Miss Bentley before the Senate investigation committee as having been associated with this group.

WARE-ABT-WITT GROUP

On August 3, the committee heard the testimony of Whittaker Chambers. He testified regarding an underground apparatus which was set up by the Communist Party in the early thirties for the purpose of infiltrating the Federal Government. The members of this group, according to Mr. Chambers, and their

governmental employment during the period concerned in the testimony, are as follows:

Harold Ware (deceased), Department of Agriculture.
 John J. Abt, Department of Agriculture; Works Progress Administration; Senate Committee on Education and Labor; Justice Department.
 Nathan Witt, Department of Agriculture; National Labor Relations Board.
 Lee Pressman, Department of Agriculture; Works Progress Administration.
 Alger Hiss, Department of Agriculture; Special Senate Committee Investigating the Munitions Industry; Justice Department; State Department.
 Donald Hiss, State Department; Labor Department.
 Henry H. Collins, National Recovery Administration; Department of Agriculture.
 Charles Kramer (Krevitsky), National Labor Relations Board; Office of Price Administration; Senate Subcommittee on War Mobilization.
 Victor Perlo, Office of Price Administration; War Production Board; Treasury Department.

SUMMARY OF WITNESSES AND TESTIMONY

Testimony regarding Communist espionage activities within the Government involving approximately 40 individuals was given before the committee by Elizabeth Terrill Bentley, Whittaker Chambers, and Louis F. Budenz, admitted former functionaries of the Communist Party.

Mr. Chambers was formerly editor of the (Communist) Daily Worker and of the New Masses. He is now a senior editor of Time Magazine. Mr. Budenz was formerly managing editor of the (Communist) Daily Worker. He is now a professor at Fordham University.

Miss Bentley, according to her own testimony which has been verified by Mr. Budenz, was formerly active in Communist underground activity. The Committee is in possession of supporting evidence to establish these previous Communist affiliations.

Of these forty-odd individuals named, Lauchlin Currie, Harry D. White (deceased), Bela Gold, Sonia Gold, Frank Coe, Alger Hiss, Donald Hiss, appeared before the committee at their own request and categorically denied the accusations made by Miss Bentley and Mr. Chambers.

Henry H. Collins, Victor Perlo, Abraham George Silverman, William Ludwig Ullmann, Nathan Gregory Silvermaster, John Abt, Lee Pressman, Nathan Witt, Duncan Chaplin Lee, Robert T. Miller, and Charles Kramer appeared in response to subpoenas. Alexander Koral, who was allegedly involved in these activities, was also subpoenaed. J. Peters, alleged head of the Communist underground in this country, will be served with a subpoena on August 30.

Norman Bursler, Allan Rosenberg, Solomon Adler, Solomon Lischinsky, Mary Price, Donald Niven Wheeler, Edward J. Fitzgerald, Harold Glasser, Joseph Gregg, Rose Gregg, Irving Kaplan, and certain Russian contacts known only as Frank, Al, and Jack, have not appeared before the committee. Harold M. Ware is deceased, as is also Jacob N. Golos.

Ten witnesses (Alexander Koral, Henry H. Collins, Victor Perlo, Abraham George Silverman, Nathan Gregory Silvermaster, William Ludwig Ullmann, John Abt, Lee Pressman, Nathan Witt, and Charles Kramer) refused to affirm or deny membership in the Communist Party on the ground of self-incrimination. These 10 witnesses on the same grounds, also refused to affirm or deny contacts with 1 or more of the 40 individuals allegedly involved in espionage or with Elizabeth Terrill Bentley or Whittaker Chambers.

Nine of these witnesses (Alexander Koral, Victor Perlo, Abraham George Silverman, Nathan Gregory Silvermaster, William Ludwig Ullmann, John Abt, Lee Pressman, Nathan Witt, and Charles Kramer) refused to affirm or deny charges made against them by Elizabeth Terrill Bentley or Whittaker Chambers.

No charge of Communist Party affiliation was made against either Lauchlin Currie or Harry Dexter White. Both denied such affiliation. However, both admitted acquaintance with various members of the espionage group named by Elizabeth Bentley and Whittaker Chambers.

The following persons who were charged with being Communist Party members denied such affiliation: Bela Gold, Sonia Gold, Duncan Chaplin Lee, Alger Hiss, Donald Hiss, Robert T. Miller, and Frank Coe. They all admitted, however, associations and acquaintance with various members of the espionage groups named. Alger Hiss, after previous denials, admitted knowing Whittaker Cham-

bers as George Crosley. Duncan Chaplin Lee and Robert T. Miller admitted knowing Miss Bentley, the former acknowledging also acquaintance with Jacob Golos, Miss Bentley's superior, now deceased.

WHY THESE HEARINGS WERE DEFERRED UNTIL JULY

The committee would like to make it emphatically clear why we undertook public hearings on espionage activities within the Government at this time. In February of 1947 the committee's investigations determined that certain Government employees had engaged in espionage activities. We knew that certain divisions of the Government were under rigid surveillance by the FBI. The committee later became aware of the fact that a secret blue ribbon grand jury had been convened in New York City to consider this Government espionage. In deference to the functions of the grand jury, and of the investigative and prosecuting agencies of the executive branch of the Government, the committee took no action or pursued no investigation which would in anywise jeopardize or interfere with the prosecution of the persons involved. Several hearings which the committee had scheduled and was prepared to hold were postponed because of the grand jury's investigation.

In July of 1948, however, when the grand jury recessed after sitting for 14 months without returning any indictments, or issuing a no true bill, or making any other disposition concerning the persons involved in this espionage activity, the committee felt compelled to bring to the attention of the American people the information that it had before it.

When we called Elizabeth T. Bentley before our committee on July 31, we were fully aware that her information and allegations had been thoroughly checked by the FBI, and that they had been substantiated. When the committee called before it Whittaker Chambers we knew that he had advised a high official of the Government as early as 1939, of the information that he knew through first-hand knowledge of the operations of the Communist apparatus within the Government during the period 1934 through 1937. Because of the fact that the Government files are not available to the committee, we could not determine what official action had been taken on the allegations of Chambers. We were in possession of no information that his story had ever been disproved or discredited. We thought his testimony should be brought out to show that this Communist penetration in the Government began as early as 1934, and that it culminated in the actual operation of the espionage rings as described by Miss Bentley.

HISS-CHAMBERS TESTIMONY

One of the most difficult problems which has faced the committee has been that of resolving the conflict between the testimony submitted by Whittaker Chambers and Alger Hiss. Chambers testified on August 3 that Hiss was a member of a Communist underground group of Government workers during the period 1934-37 when Chambers was serving as a Communist Party functionary in Washington. On August 5 Hiss categorically denied the charges of Chambers that he was or ever had been a member of the Communist Party, and furthermore denied ever having known Chambers or "having laid eyes upon him." As a result of exhaustive investigation by the committee's staff and of hours of executive session testimony from Hiss, Chambers, and all others who had information concerning the conflicting stories, Hiss finally admitted on August 17 for the first time that he actually had known Chambers as George Crosley, during the period in question.

As a result of the hearings and investigations which have been conducted by the committee to date, these facts have been clearly established: (1) There is no doubt whatever but that Chambers from 1931 to 1938 was a paid functionary of the Communist Party and that from 1934 to 1937 he operated as a member of the Communist underground among Government workers in Washington. (2) The refusal of Nathan Witt, John Abt, Henry Collins, Lee Pressman, and Victor Perlo to answer any questions concerning their activities as members of this group on the ground of self-incrimination and to answer as to whether or not they were members of the Communist Party during that period is in itself strong corroborative evidence for Chambers' story. (3) By his own admission Hiss knew Chambers for a period of at least 10 months during the period in question and possibly longer. It is also clear that Hiss knew Chambers very well as indicated by his admission that he sublet his furnished apartment to him, that he met him on various occasions for lunch, that on at least one occasion he gave him a ride to New York from Washington, that for several days the Chambers family visited

in the Hiss home and that he loaned money to Chambers, and that he gave him an automobile. (4) While admitting that he knew Chambers, Hiss still denies that he knew that Chambers was a Communist, and that he, Hiss, was a member of the Communist Party at any time.

Hiss testified on August 16 and 17 that at the time that he leased his apartment to Chambers he gave him a 1929 Ford automobile. In his testimony in the public session on August 25, however, when confronted with documentary evidence which committee investigators produced, that he actually had transferred the car in 1936 to the Cherner Motor Co. who the same day transferred it to one William Rosen, Hiss changed his position on the car and testified in a manner which to the committee seemed vague and evasive. He stated that he could not recall whether or not he gave the car to Chambers or whether he loaned it to him. He could not recall whether he gave it to him at the same time he sublet the apartment to him or whether he did so several months later after Chambers had left the apartment. He had no recollection whatever of having transferred the car to the Cherner Motor Co. although he admitted that the signature on the transfer of title was his own. He said that it was possible that he could have given the car to Chambers and that Chambers could have given it back to him, and that he later could have transferred it to the Cherner Motor Co. but that he could not recall what happened.

This much concerning the testimony in regard to the car can definitely be concluded. Hiss stated on August 16 and 17 that he sold or gave the car to Crosley (Chambers) at the same time that he sublet the apartment to him, and that at the time that he did this he had another car which he himself was using. A check of the records by the committee staff showed that Hiss did not acquire another car until several months after the apartment transaction was concluded and that he actually transferred the car over a year later to the Cherner Motor Co.

His vague and evasive testimony on this transaction raises a doubt as to other portions of his testimony. In this connection it should be observed that on 198 occasions Hiss qualified his answers to questions by the phrase "to the best of my recollection" and similar qualifying phrases, while Chambers, on the other hand, was for the most part forthright and emphatic in his answers to questions.

For example, Chambers testified on August 7 that Hiss had expressed a desire to transfer the automobile in question to a Communist Party worker and that he effected this transfer by taking the car to a used-car lot which was operated by a Communist sympathizer, who in turn was to turn it over to a Communist organizer. To date the committee's investigations of the car transaction tend to bear out Mr. Chambers' version of what happened rather than Hiss' version. The only evidence of the transfer of the car is of the transfer to the Cherner Motor Co. in 1936 and to William Rosen to whom the car was transferred by Cherner. When questioned by the committee, Rosen refused to answer any questions concerning the car or concerning whether he was a member of the Communist Party on the ground of self-incrimination. The committee will continue to pursue its investigations of this transaction.

In summary, the developments of the Hiss-Chambers controversy to date warrant the following conclusions:

1. Despite his denial that he has ever been a member of the Communist Party or had any friends who were Communists, Hiss has admitted knowing and associating with Harold Ware, Nathan Witt, John Abt, Henry Collins, Lee Pressman, and Whittaker Chambers, all of whom are either known or admitted members of the Communist Party, or who have refused to answer the question as to whether they were members of the Communist Party on the ground of self-incrimination. It stretches the credulity of the committee to believe that Hiss could have known these people, including Chambers, as well as he did without at some time suspecting that they were members of the Communist Party.

2. The committee believes that Mr. Hiss was not completely forthright in his testimony before the committee on August 5 when he failed to tell the committee that he noted a familiarity about the features of Whittaker Chambers when a picture of Chambers was shown to him. He has since admitted that he told several friends before the hearing of his noting this familiarity but when shown a picture of Chambers he deliberately created the impression that the face meant nothing to him whatever. It is hard to believe that Hiss could have known Chambers as well as he admits he knew Crosley without being able to recognize the picture which was shown him during the hearing of August 5.

3. Hiss has either failed or refused to tell the committee the whole truth concerning the disposition of his 1929 Ford automobile. It is inconceivable that a man would not remember whether he had given a car away twice or at all and it is

just as inconceivable that he would not recall whether a person to whom he had given the automobile had later returned it to him.

4. Despite the fact that Hiss says he knew Chambers under the name of Crosley, a thorough investigation by the committee has failed to date to find any person who knew him by that name during the period in question. The committee believes that the burden is upon Hiss to establish that Chambers actually went under the name of Crosley at the time he knew him and that Hiss knew Crosley as a free-lance writer rather than as the admitted Communist functionary which Chambers actually was during that period.

OBSTRUCTIVE TACTICS BY WHITE HOUSE

The committee's investigation of espionage among Government workers has been hampered at every turn by the refusal of the executive branch of the Government to cooperate in any way with the investigation due to the President's loyalty freeze order. Not only have the executive agencies refused to turn over to the committee the loyalty files of the suspected members of the spy rings but they have even gone so far as to refuse to turn over the employment records of these individuals. The committee can see no excuse whatever for such arbitrary action since it is obvious that turning over employment records would in no wise involve disclosing sources of information or confidential data. Had the executive agencies of the Government cooperated with the committee in its investigation, there is no question but what the public would now have full information concerning all the ramifications of the espionage rings. The committee has proceeded to obtain this information in every way possible and eventually will see that it is presented to the public, but the committee deplors the fact that the executive branch of the Government will in no way aid the committee in its efforts to protect the national security from those who are doing everything they can to undermine and destroy it.

RESPONSIBILITY OF THE ATTORNEY GENERAL

The committee again calls upon the Attorney General of the United States to vigorously enforce the existing espionage and other laws against those who are participating in the Communist conspiracy. These laws should be enforced without regard to partisan or political considerations because the very security of the Nation is at stake. The failure of the Attorney General to enforce the laws as vigorously as he should has been in large part responsible for the growth and power of the Communist conspiracy in the United States.

The committee again calls upon the Attorney General to forward to the Congress at the earliest possible date recommendations for strengthening the espionage laws so that they will be adequate to deal with the Communist conspiracy. As long ago as February 5 the Attorney General appeared before the Legislative Subcommittee of the Un-American Activities Committee and declared that amendments to the espionage laws were essential in order to meet the new techniques which had been developed by the Communists and other foreign agents. He assured the committee that his recommendations would be forwarded to the Congress at an early date. Members of this committee have repeatedly requested the Attorney General since that time to give the Congress his recommendations for needed changes of the espionage laws, and as yet have received no response whatever as to what changes are needed.

The Attorney General has from time to time inferred that those who participated in the Bentley spy ring might be immune from prosecution under present laws because of the inadequacy of those laws. This investigation has shown clearly that a well-organized and dangerous espionage ring operated in the Government during the war; and if present laws are inadequate, as the Attorney General has inferred, to prosecute the members of this ring, it is the solemn responsibility of the Attorney General to forward to the Congress immediately his recommendations for needed changes in the espionage laws so that the national security can be protected.

It is also imperative that the Attorney General proceed promptly to call the New York special grand jury back into session to consider his recommendations on the disposition of the evidence he has placed before it. The public has the clear right to have this proceeding concluded by indictments where indicated, by a no true bill where warranted, and by a full report by the Attorney General on his disposition of the case.

THE COMMUNIST UNDERGROUND APPARATUS

In the past the committee has dealt primarily with the open manifestations and activity of the Communist Party. From time to time, however, witnesses have called our attention to the existence of a far-reaching and ramified underground organization. The Communist Party has been compared with a submarine with its small periscope exposed and its destructive apparatus beneath the surface.

The testimony of Elizabeth Terrill Bentley and Whittaker Chambers has disclosed the existence of compact, conspiratorial rings consisting of Communists within the Government. These rings maintained their contact with the Communist Party through one designated person known to them only by a pseudonym. This person in turn contacted the representative of the Soviet military intelligence. Through this single contact the members of each ring paid their party dues, received literature and instruction, and transmitted documents and information. There is every reason to believe that the committee has merely scratched the surface of these activities, that more of these groups exist than have been disclosed by available witnesses, and that such groups are still operating within the Government.

This condition provides a factual answer to those who raise the fear that appropriate legislation may drive the Communist Party underground. The party is in fact and by its own choice already in large measure underground.

HOW COMMUNIST CONSPIRATORIAL TACTICS CHANGE

Throughout the world and throughout all time a prime facet of Communist conspiracies has been the utilization of every device and protection the law of the land provides to escape detection, to avoid punishment, and to utilize the safeguards provided to protect the innocent to establish their godless tyranny to provide a dictatorship for all but the favored few.

This committee has witnessed the constantly changing practice of these devices of deceit and this misuse of constitutional safeguards by American Communists since its first inception.

First, Communists sought to defy the subpoena power of the Federal Government as exercised by the regularly constituted committee of the Congress. Then they resorted to slander, abusive invective, and diabolic mistruths about the Congress as a whole and the members of congressional investigating committees in particular. They defied the right and the power of Congress to investigate their conspiratorial activities, seeking to protect themselves by untruthfully describing themselves as a "political party."

For a time they refused to answer all pertinent questions before congressional committees. This committee continued to try to change its tactics and improve its techniques to cope with the chameleonlike tactics of these Communist conspirators. Finally, in the Josephson case the Supreme Court upheld the right of a congressional committee to cite for contempt a recalcitrant or contemptuous witness. A long series of convictions and jail sentences has now resulted as a consequence of cases cited for contempt by Congress.

Confronted with this situation, the Communist legal cell in America has lately developed yet a new tactic. They now counsel their Communist clients to fall back upon the fifth amendment and to resort to the statement, "I cannot answer the question on the grounds of self-incrimination," when any question is asked whereupon a forthright reply might expose their guilt or complicity. Utilization of the grounds of self-incrimination carried to the extreme and unreasonable extent now recommended by Communist counselors could conceivably develop to the point where all legislative investigation processes would be stymied completely and the Communists could cloak their conspiratorial and treasonable activities in and out of Government by this device. This committee is now studying methods of legally meeting this new challenge to constitutional authority as it has studied past devices developed and utilized by Communists for similar purposes. It urges the cooperation and assistance of the best legal counsel in America to aid it in arriving at a proper course of action in the interests of our national security in this uncertain and insecure juncture in our Nation's history.

The committee recognizes and desires to protect the constitutional right to use the fifth amendment, but the Communist Party has now resorted to the extreme of invoking this constitutional right as a cover-all for any and all activities whether possible incrimination may or may not be involved. They have employed

it as a device for refusing to provide the committee with any pertinent information concerning Communist activities in America.

PRESENT OBSERVATIONS AND FINDINGS

This committee will issue a final report on the Communist espionage hearings just as soon as it appears that all evidence has been gathered, verified, and evaluated. In the meantime, this interim report is being issued to acquaint the public with the salient features of what has transpired to date. For that reason, too, the complete transcripts of all hearings to date are now in the hands of the Government Printing Office and will be available to the public at an early date.

We are not attempting in this report to preview the final findings which this committee will make, since every day brings in new facts which we must explore and exhaust. It is our purpose to ferret out and expose every available fact in connection with the entire espionage conspiracy which the Communists have established and operated in our executive agencies. Until that is done, other interim reports may be issued. The final report will not be delayed a day beyond that necessary to complete the vast amount of investigation, interrogation, and exploration which lies ahead of us and the staff investigators and subcommittees which will move forward diligently on this vital matter.

As of this date, however, it is possible to record certain findings and observations which we believe will be helpful in aiding the public and the Members of Congress generally to understand the significance of what is being uncovered by these hearings.

(1) It is now definitely established that during the late war and since then, there have been numerous Communist espionage rings at work in our executive agencies which have worked with and through the American Communist Party and its agents to relay to Russia vital information essential to our national defense and security. Russian Communists have worked hand in hand with American Communists in these espionage activities.

(2) It is established beyond doubt that there is grave need for vigorous, persistent, and courageous continued investigation to determine the identity of those guilty of past offenses, the methods employed in the past and at present to move carefully selected Communist agents and their sympathizers into key positions of Government, and to break up all Communist espionage conspiracies and activities prevailing at this time. These situations should command and receive the most diligent attention of this committee, of the Attorney General's office and the grand jury proceedings under his authority, and of the Federal Bureau of Investigation. They should proceed without partisanship and without prejudice. It would be greatly in the public interest if they could receive the support of the White House rather than to be obstructed by it. This committee believes the eradication of espionage from the Federal Government should command the same cooperation between the White House and the Congress and between the two major American political parties as has been utilized in the formation and implementation of our bipartisan foreign policy.

(3) As evidence of this committee's sincerity in desiring to cooperate fully with the executive agencies in the ferreting out of all disloyal and un-American practices in Government during our committee's existence, we have opened our files to the security officers and loyalty board representatives of the executive departments. This year alone these representatives of the executive departments have paid over 14,000 official visits to our file rooms. They have been accorded full cooperation. Contrariwise, under the President's Executive order, the files and records of the executive departments on all matters of loyalty and security have been firmly closed, not only to our committee but to all committees of Congress and to the general public. We hold that this is an unwholesome, an unwise, and an unsafe situation.

(4) Since the committee has not completed its investigation, it is not prepared at this time to forward to the Attorney General specific charges of perjury. However, we have made available to the United States Attorney a complete transcript of the hearing in this case and shall continue to keep him supplied with the full text. The committee is not a prosecuting body; that responsibility rests with the Department of Justice and not this committee.

(5) Investigations and hearings thus far completed offer convincing and compelling reasons why new legislation is necessary to safeguard this free Republic against the new and clever conspiratorial tactics developed by Communists to promote and conceal their espionage activities and their disloyal purposes.

Among the dangers which must be met by new legislation are at least the following, on the basis of existing evidence; continuing investigations may develop the need for yet additional legislative act on—

(A) Communists must be required by law to register so that the present underground activities of the party will be subject to at least this additional weapon of exposure and detection. This was a feature of H. R. 5852, approved by this committee this year and overwhelmingly passed by the House on May 19.

(B) Communists should be denied by law the privilege of employment by the Federal Government, with adequate penalties on both those seeking employment as Communists and those knowingly giving appointive positions to Communists. This also was a feature of H. R. 5852.

(C) Passports should be denied American Communists who utilize these passports to further their conspiratorial plots against our American freedoms as they confer with their co-conspirators abroad. This, too, was a feature of H. R. 5852.

(D) Legislation should be adopted making it more difficult for unlimited numbers of foreign Communists to enter the United States and making it easier for this Government to deport or imprison Communist emissaries who utilize their entrance into the United States to attack or undermine our American institutions.

(E) The espionage laws of the United States should be amended or tightened so as to provide appropriate penalties for Government officials who, without authority, relay secret and significant information affecting our national security to the representatives of any foreign power, friend or enemy, peacetime or war.

(F) Legislation should be adopted making it impossible for the executive branch of the Government to deny to the legislative branch of the Government necessary information dealing with the loyalty of employees of the Federal Government.

(G) All of the provisions of H. R. 5852 should be adopted at the next session of Congress, with certain amendments herein suggested, together with other definitive language and provisions enabling it to cope with some aspects of Communist activities, evasions, and tactics which the current investigations and hearings are making apparent to all. Among these is the new Communist tactic of evading detection and impeding the processes of legislative investigation through an unwarranted and unjustifiable misuse of the protections which the fifth amendment to the Constitution rightfully provides for those unjustly accused or those decent, patriotic Americans who may at times find themselves required to defend themselves in a court of law.

(H) Legislation should be adopted by the next session of Congress which sharply increases the penalties for those convicted of contempt of Congress.

(I) During the course of these hearings, our committee was shocked to have before it witnesses who hold Reserve commissions in our armed forces and who refused to answer under oath whether or not they were, are, or ever have been members of the Communist Party. It was equally shocking to have former high officials of the Federal Government take such a position. The committee therefore recommends that the armed services revoke the commission of any officer who refuses to answer this question. The Communist Party is now accepted in all quarters as not being a political party in fact but a conspiracy working for the overthrow of the Government of the United States. The committee further recommends that any official or employee of the Government who will refuse to state under oath whether or not he is a member of the Communist Party should be removed, and his name "flagged" against any future Government service.

This report unanimously approved by a vote of the committee, August 27, 1948.

APPENDIX

The following is material which has been ordered by the committee to be included in the record of these hearings:

WASHINGTON, D. C., August 13, 1948.

HON. J. PARNELL THOMAS,
*Chairman, Committee on Un-American Activities,
House of Representatives,
Washington, D. C.*

MY DEAR MR. THOMAS: Under date of August 12, the following statement was given to the press:

"I have only recently returned to Washington, D. C., and wish to state that the charges which I have learned through the newspapers Miss Bentley has made against me are false. I have never knowingly associated with any person or group engaged in espionage. I have not transmitted confidential information except as authorized in the line of duty as a Government employee. I have never been and am not now a member of the Communist Party. To the best of my knowledge, I have never met Miss Bentley or communicated with her in any way."

I would appreciate an opportunity of appearing before your committee in order that I might deny Miss Bentley's allegations or implications arising therefrom concerning myself. It would further be appreciated if you would make this communication a part of your committee's official records.

Very truly yours,

WILLIAM H. TAYLOR.

HON. J. PARNELL THOMAS,
*Chairman, Committee on Un-American Activities,
House of Representatives,
Washington, D. C.*

WASHINGTON, D. C., September 2, 1948.

MY DEAR MR. CHAIRMAN: I was away from Washington at the time Elizabeth T. Bentley appeared before the House Committee on Un-American Activities on July 31, 1948, and made certain charges against me.

Upon my return to Washington, I issued a statement to the press denying in full Miss Bentley's allegations. On August 13, 1948, I wrote to you, enclosing a copy of my statement to the press, and offering to appear before your committee to deny such allegations in person. I believe my letter was received by your office August 14, 1948, the day on which hearings in this matter were recessed until September 7.

Two weeks after the hearings were recessed, the committee issued an interim report, in which all of those named by Miss Bentley were listed. This list was followed in the report by a statement as to those who had appeared before the committee and had denied the accusations made by Miss Bentley, those who were subpoenaed and appeared in response to subpoenas, those who have not appeared, those who refused to affirm or deny membership in the Communist Party, those who refused to affirm or deny charges made against them by Miss Bentley, and those who denied membership in the Communist Party. My name did not appear under any of these classifications, nor was any reference to my denial made in the report.

In view of my public denial of the accusations made against me and my offer to appear voluntarily before the committee, I am desirous that the committee's public records shall show these facts.

In order to facilitate this matter, I am attaching an affidavit denying Miss Bentley's charges, which I have sworn to under oath before a notary public. I should like to request that this affidavit be included in the public records of the committee.

Sincerely yours,

WILLIAM H. TAYLOR.

Attachment.

DISTRICT OF COLUMBIA, 88:

AFFIDAVIT

William H. Taylor, being duly sworn, deposes and says as follows:

I was away from Washington when Miss Elizabeth T. Bentley first appeared before the House Committee on Un-American Activities and made certain charges against me. When I returned to Washington and had an opportunity of reading a transcript of Miss Bentley's testimony concerning me, I issued a statement to the press denying her allegations. Under date of August 13 I sent a copy of this press statement to the chairman of the committee, and stated that I would appreciate the opportunity of appearing before the committee to deny these charges in person.

I was born in Revelstoke, British Columbia, Canada, on March 30, 1906. I came to the United States in 1928 upon graduation from the University of British Columbia, to attend graduate classes in economics at the University of California in Berkeley, under the terms of a fellowship that had been awarded me. I received my Ph. D. degree in economics from the University of California in 1935. During the period prior to 1941. I held several academic positions both in American and Canadian universities. In 1937 I made my application for first papers as an American citizen. I completed my waiting period and was naturalized in March 1940.

My association with the Government began in January 1941. I had been on sabbatical leave from the University of Hawaii, and while visiting Washington I was offered an appointment with the Division of Monetary Research of the Treasury Department as an economic analyst. My employment with that Division continued until December 1946, when I resigned to accept a position with the International Monetary Fund. Of the 6 years I spent with the United States Government, nearly 4 years were spent in Government service overseas.

It is my understanding that the charges made by Miss Bentley against me are as follows:

1. That I am or was a member of the Communist Party;
2. That I participated as a member of an espionage group; and
3. That I transmitted confidential information to persons with the intent that such information would be delivered to agents of the Soviet Union.

I would like to answer each of these allegations in turn:

1. I am not now and never have been a member of the Communist Party, nor have I ever been a member of any organizations or agencies which I had reason to believe were affiliated with the Communist Party or sponsored by it.

2. In reply to Miss Bentley's second allegation, I have never been a member of any espionage group. It is true that I know some of the people mentioned by Miss Bentley. My relationship with these people was at all times one that was proper and in keeping with my position as a Government employee. Most of those whom I knew were also employed by the Treasury Department.

3. As for the third allegation, I deny that I ever transmitted confidential information to any person with the intent that such information should be delivered to agents of the Soviet Union. I deny that I ever transmitted confidential Government information or made information available to any person other than as required or proper in my line of duty as a Government employee.

In connection with the allegations of Miss Bentley and my denial of them, I wish to state that to the best of my knowledge I have never met Miss Bentley or communicated with her in any way. I have studied newspaper photographs of Miss Bentley carefully, and to the best of my knowledge I do not know this woman under the name of Elizabeth T. Bentley or any other name. Her statements are certainly not based on any personal relationship. So far as I know, she does not contend that she ever knew or met me. Miss Bentley did state that she "believed" I had been in China and Portugal on missions for the United

States Government. It is of interest that, of the 15 months that I spent in China, almost 9 months were spent as a prisoner of the Japanese. I have never been to Portugal.

WILLIAM H. TAYLOR.

Subscribed and sworn to before me this 3d day of September 1948.

[SEAL]

SANDY X. DEMOU,

Notary Public, District of Columbia.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON UN-AMERICAN ACTIVITIES,
Washington, September 8, 1948.

MR. WILLIAM H. TAYLOR,
Washington, D. C.

DEAR MR. TAYLOR: I am in receipt of your letter of September 2 and the enclosed affidavit. Pursuant to your request, I shall be glad to see that your letter of August 13, as well as your letter of September 2 and the attached affidavit are included in the printed record of the committee's hearings which will be published sometime next week.

* * * At the present time, I am unable to advise you whether they intend to call you before the committee. However, if you desire to be heard, the committee will be glad to set a date for you.

Sincerely yours,

J. PARNELL THOMAS, Chairman.

WASHINGTON, D. C., August 30, 1948.

COMMITTEE ON UN-AMERICAN ACTIVITIES,
United States House of Representatives, Washington, D. C.

DEAR SIR: In view of the publication of my name in your interim report this week end as an individual contacted by Miss Elizabeth Bentley, I would like to take this opportunity to repeat the statement I made to the press several weeks ago when my name first came up in the testimony, so that you may have it in your files.

This young lady, according to newspaper accounts, says I never gave her any secret information, so that makes it pretty clear.

I am not now and never have been a Communist, as everyone who knows me will attest.

Some 6 years ago or so, when I was a news editor in the newsroom of the Coordinator of Inter-American Affairs, editing shortwave broadcasts for Latin America, a young lady interviewed me three or four times about our news broadcasts and programs.

She said her name was Helen Johnson and that she did articles and research for PM and other publications. We discussed only material that was available and given to hundreds of other newspaper reporters and agencies, and that could have been gotten by listening to the radio any day of the week. I never handled any other kind of material, and would not have divulged any secret material, even if I had.

I suppose this alleged Miss Johnson is Miss Bentley, but as she herself says, she never got anything secret from me.

During most of the time Miss Johnson-Bentley says she was working in an espionage ring, I was a sergeant in the United States Marine Corps. I fought overseas in the Pacific and was wounded in action in defense of my country, my home, and my family. I fought for the principles of democracy which this Nation represents and which I cherish, and am ready to defend once again, if ever the call comes.

I have voluntarily supplied these facts to the Federal Bureau of Investigation since the question came up this month, and I will be glad to furnish any additional information about myself you may need, or to testify as to these facts under oath, if you think that will be useful.

I would be deeply appreciative if—in view of the publication of my name in your interim report—you would be kind enough to include this letter or its substance in any future report you may publish.

And if, for any reason, you should care to have me appear before your committee, I would be grateful if you would advise me before my departure. As you know, I am staff correspondent for the news magazine, *United States News and World Report*, in Argentina and South America. I have been on vacation and temporary assignment here in the United States, but I am being sent down to resume my post in Buenos Aires in less than 2 weeks. I will be leaving Washington about September 9.

Thank you.

Very sincerely yours,

BERNARD S. REDMONT.

SEPTEMBER 8, 1948.

Mr. BERNARD S. REDMONT,
Washington, D. C.

DEAR MR. REDMONT: This office is in receipt of your letter of August 30 and, pursuant to your request, the committee will be glad to place your letter in the record of the proceedings of the committee in connection with the testimony of Elizabeth T. Bentley.

These hearings will be printed within the next week, and I shall be glad to see that you receive a copy.

Sincerely yours,

ROBERT E. STRIPLING, *Chief Investigator.*

SEPTEMBER 3, 1948.

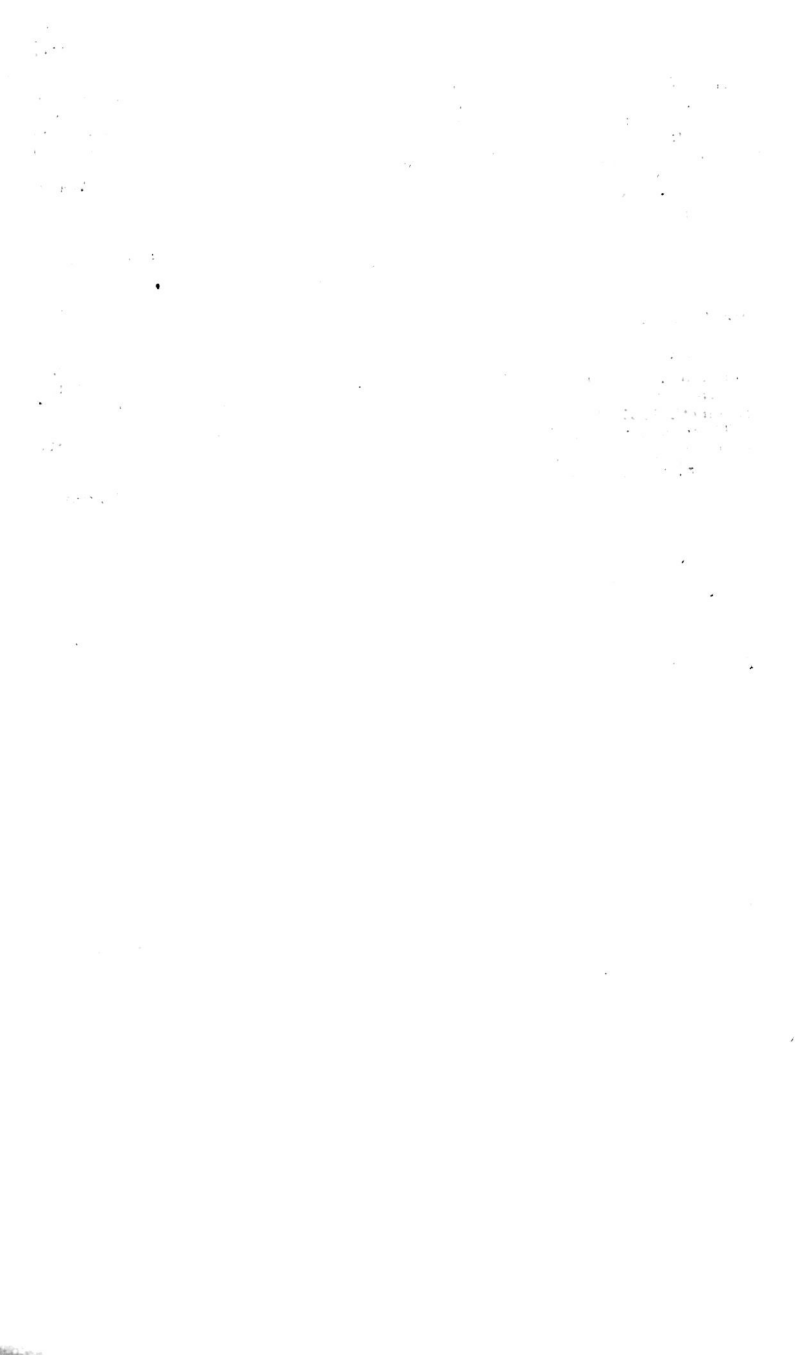
Representative J. PARNELL THOMAS,
*Chairman, House Committee on Un-American Activities,
House of Representatives, Washington, D. C.*

DEAR SIR: On August 13, 1948, I appeared before a special subcommittee of your committee and, after making a statement denying the allegation of Miss Bentley concerning myself and answering questions of the subcommittee, I requested permission to ask Miss Bentley questions concerning the statement she had made about me. This was refused. Likewise, permission to make an oral statement in place of the questions or to amend my original statement was refused. The chairman suggested that I submit a written statement for the consideration of the committee.

As the committee may recall, my original statement pointed out that the recent hearings of the committee have many aspects of a trial by a criminal court. I wished to ask questions of the person who had made the allegation in order to secure at least part of the assistance which criminal courts provide to people accused—namely, the right of cross-examination. In my opinion the submission of questions in writing for the consideration of the committee is not in any sense a substitute for cross-examination and I have therefore decided not to present written questions.

Very truly yours,

FRANK COE.



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SOVIET ESPIONAGE WITHIN THE UNITED STATES GOVERNMENT

INTRODUCTION AND SUMMARY

Communist espionage has broken through the security forces of the United States Government and made off with secret information of both military and diplomatic character concerning our national plans, policies, and actions.

This espionage system has been carefully developed over a period of more than 15 years and it has been successful to a degree critical to the welfare and safety of the people of this Republic.

Following are some details, drawn together from testimony taken by the House Committee on Un-American Activities in recent months, concerning the operations of just ONE such Communist apparatus set up in Washington, D. C., for the benefit of world communism.

This report should be read as a supplement to the committee report of August 28, 1948, which dealt with operations of that same Communist apparatus known up to that time. It should also be read with the thought in mind that many of the more intimate and extensive particulars of evidence sworn to by witnesses under oath are not here disclosed. The committee is withholding these for the time being because the Department of Justice and other agencies of the executive branch are undertaking to bring prosecutions against faithless Government servants and other Soviet agents on the basis of existing law.

The experiences of the committee in collecting the evidence on which this report is based have led us to recommend new legislation, particulars on which will be found in the closing chapter of this document.

BACKGROUND INFORMATION

Forty-eight hours after publication of the Russo-German pact of August 23, 1939, one Whittaker Chambers, a Communist agent, decided to abandon communism. He tried to see the President of the United States to expose the nature and details of the Communist conspiracy in this country.

He was unsuccessful, but finally did reach Assistant Secretary of State Adolf Berle and gave an outline of his activity on the basis of which Secretary Berle took notes from him for an hour and a half.

In 1941 Chambers furnished similar information to representatives of the Department of Justice, the effect of which was to indicate that he, Chambers, had been an important member of a Communist apparatus in Washington which was still at that time operating among officers of the United States Government holding positions of high public trust.

Conditions in America present the most fertile soil for Soviet espionage.

—VICTOR KRAVCHENKO,
Former Soviet official.

The Communist Party is like a submerged submarine; the part that you see above water is the periscope, but the part underneath is the real Communist organization; that is the conspiratorial apparatus.

—J. PETERS,
*Russian head of a Communist
spying in the U. S. A.*

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[COMMITTEE PRINT]

SOVIET ESPIONAGE WITHIN
THE UNITED STATES GOVERNMENT
SECOND REPORT

COMMITTEE ON UN-AMERICAN ACTIVITIES
HOUSE OF REPRESENTATIVES
EIGHTIETH CONGRESS
SECOND SESSION



Public Law 601
(Section 121, Subsection Q (2))

DECEMBER 31, 1948



UNITED STATES
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On August 3, 1948, the committee subpoenaed Whittaker Chambers before it in connection with its investigation of Communist espionage within the Government. He then gave testimony concerning the operations of the Communist apparatus and information which he had sought to disclose to the executive branch of the Government in 1939.

After receiving Chambers' first sworn public testimony, our committee and its staff of eight investigators began a diligent investigation of his credibility and started exploring the many leads offered.

This procedure led finally to the public confrontation before our committee in Washington on August 25, 1948, of Whittaker Chambers and Alger Hiss, president of the Carnegie Endowment for International Peace, a former special assistant and director of the Office of Special Political Affairs, United States Department of State, and former Secretary General of the San Francisco Conference for the Drafting of the United Nations Charter.

As a result of the evidence obtained by our investigators, plus the testimony brought out in the public hearings of Hiss and Chambers, this committee issued an interim report on August 28, 1948, from which report the following quotations should be helpful in reviewing the present status of the current espionage investigation:

QUOTATIONS FROM COMMITTEE'S REPORT OF AUGUST 28

Not until the House Committee on Un-American Activities began its current hearings on the subject did the general public have any knowledge that the now established and disclosed Communist espionage activities had reached into vital positions of high authority in Government. Not until these hearings began did the general public or even the average Member of Congress have the evidence upon which to base decisions concerning the new legislation essential to our national security under prevailing conditions. Not until these hearings began did the people to whom this Government belongs have any direct evidence as to the men and methods being employed to subjugate our freedom to the tyranny of a foreign totalitarian power. The false security of complacent ignorance is much worse than having either no security or no complacency at all.

It was not until our public hearings had proceeded for some time that it was definitely established that Alger Hiss and Whittaker Chambers knew each other personally and rather intimately during the precise period of time that Whittaker Chambers testified that their associations took place. Mr. Hiss testified that he knew Whittaker Chambers by the name of George Crosley but he positively identified the man known today as Whittaker Chambers as the man he knew. He testified unequivocally that he not only knew Chambers (by name of Crosley) but that he let him use his apartment without ever receiving payment for it, that he loaned Chambers money, that he loaned or gave him an automobile, and that he had even kept Mr. and Mrs. Chambers and their baby in his own home overnight on one or more occasions. Thus the connection between Alger Hiss and Whittaker Chambers, as a man-to-man relationship, stands without challenge confirmed by the testimony of both men and the public hearings held by this committee. This fact had never been established by other investigations.

It should also be noted that the stark fact that Alger Hiss and Whittaker Chambers, a self-confessed paid Communist functionary and espionage agent, were acquainted with each other, and did have numerous transactions and associations together is of far greater significance under the circumstances than whether Chambers was known to Hiss by the name of "Carl" or of "George Crosley." This fact has been established without challenge for the record by the public hearings of this committee, although through the years it had been established by no other investigation.

Hiss will be given every opportunity to reconcile the conflicting portions of his testimony, but the confrontation of the two men and the attendant testimony from both witnesses has definitely shifted the burden of proof from Chambers

to Hiss, in the opinion of this committee. Up to now, the verifiable portions of Chambers' testimony have stood up strongly; the verifiable portions of the Hiss testimony have been badly shaken and are primarily refuted by the testimony of Hiss versus Hiss, as the complete text of the printed hearings will reveal.

* * * * *

As a result of the hearings and investigations which have been conducted by the committee to date, these facts have been clearly established: (1) There is no doubt whatever but that Chambers from 1931 to 1938 was a paid functionary of the Communist Party and that from 1934 to 1937 he operated as a member of the Communist underground among Government workers in Washington. (2) The refusal of Nathan Witt, John Abt, Henry Collins, Lee Pressman, and Victor Perlo to answer any questions concerning their activities as members of this group on the ground of self-incrimination, and to answer as to whether or not they were members of the Communist Party during that period is in itself strong corroborative evidence for Chambers' story. (3) By his own admission, Hiss knew Chambers for a period of at least 10 months during the period in question and possibly longer. It is also clear that Hiss knew Chambers very well as indicated by his admission that he sublet his furnished apartment to him, that he met him on various occasions for lunch, that on at least one occasion he gave him a ride to New York from Washington, that for several days the Chambers family visited in the Hiss home and that he loaned money to Chambers, and that he gave him an automobile. (4) While admitting that he knew Chambers, Hiss still denies that he knew that Chambers was a Communist, and that he, Hiss, was a member of the Communist Party at any time.

Hiss testified on August 16 and 17 that at the time that he leased his apartment to Chambers he gave him a 1929 Ford automobile. In his testimony in the public session on August 25, however, when confronted with documentary evidence which committee investigators produced that he actually had transferred the car in 1936 to the Cherner Motor Co., who the same day transferred it to one William Rosen, Hiss changed his position on the car and testified in a manner which to the committee seemed vague and evasive. He stated that he could not recall whether or not he gave the car to Chambers or whether he loaned it to him. He could not recall whether he gave it to him at the same time he sublet the apartment to him or whether he did so several months later after Chambers had left the apartment. He had no recollection whatever of having transferred the car to the Cherner Motor Co. although he admitted that the signature on the transfer of title was his own. He said that it was possible that he could have given the car to Chambers and that Chambers could have given it back to him, and that he later could have transferred it to the Cherner Motor Co. but that he could not recall what happened.

This much concerning the testimony in regard to the car can definitely be concluded: Hiss stated on August 16 and 17 that he sold or gave the car to Crosley (Chambers) at the same time that he sublet the apartment to him, and that at the time that he did this he had another car which he himself was using. A check of the records by the committee staff showed that Hiss did not acquire another car until several months after the apartment transaction was concluded and that he actually transferred the car over a year later to the Cherner Motor Co.

His vague and evasive testimony on this transaction raises a doubt as to other portions of his testimony. In this connection, it should be observed that on 198 occasions Hiss qualified his answers to questions by the phrase "to the best of my recollection" and similar qualifying phrases, while Chambers on the other hand, was for the most part forthright, and emphatic in his answers to questions.

* * * * *

The committee again calls upon the Attorney General to forward to the Congress at the earliest possible date recommendations for strengthening the espionage laws so that they will be adequate to deal with the Communist conspiracy.

* * * * *

It is also imperative that the Attorney General proceed promptly to call the New York special grand jury back into session to consider his recommendations on the disposition of the evidence he has placed before it. The public has the clear right to have this proceeding concluded by indictments where indicated, by a no true bill where warranted, and by a full report by the Attorney General on his disposition of the case.

* * * * *

The final report will not be delayed a day beyond that necessary to complete the vast amount of investigation, interrogation and exploration which lies ahead of us and the staff investigators and subcommittees which will move forward diligently on this vital matter.

RECENT DISCLOSURES

Subsequent to the public confrontation before this committee, Chambers repeated his charges against Alger Hiss in a radio program in response to a challenge by Hiss to do so. Thirty days later, Alger Hiss brought suit against Whittaker Chambers in Federal court in Baltimore, Md., charging libel and slander. On November 17, pretrial depositions were being taken by the attorneys for Mr. Hiss, and during the examination of Chambers he was asked, in substance, whether he had any documentary material to support his allegations.

Thereupon Chambers submitted a number of typewritten documents which he said Hiss had given him. Chambers said these documents had been copied from State Department records, most of which were very confidential and classified as restricted to high Government officials for use and knowledge.¹

Alexander Campbell, head of the Criminal Division of the Department of Justice, was called in immediately and the material was turned over to him. The various participants in the deposition were directed, in the interest of national security, to keep silent on the whole matter. On December 1, 1948, there appeared in a Washington newspaper an item to the effect that new and sensational information had been submitted in the Hiss-Chambers controversy. Later the same day, the United Press stated:

[The Washington Daily News, Wednesday, December 1, 1948, p. 3]

HISS AND CHAMBERS PERJURY PROBE HITS DEAD END

(By United Press)

The Justice Department is about ready to drop its investigation of the celebrated Alger Hiss-Whittaker Chambers controversy, it was learned today.

Department officials still have "under study" the question of a possible perjury prosecution. But officials said privately that unless additional evidence is forthcoming, they are inclined to forget the whole thing.

The perjury question arose when Mr. Chambers, an admitted ex-Communist who is now with Time magazine, charged under oath that Mr. Hiss was a member of a prewar Communist underground in official Washington. Mr. Hiss, a former State Department official, denied it—also under oath.

Their conflicting statements were made during House Un-American Activities Committee's hearings last summer on Communists in the Government. The committee turned their testimony over to the Justice Department for a perjury investigation.

One department source said that on the basis of available evidence, officials in charge of the case believe it would be unwise to take it before a grand jury. But he emphasized this attitude could change overnight if the House committee or the Department investigators dig up some new evidence.

The FBI has taken part in the Department's investigation. Attorney General Tom C. Clark has assigned the case to Special Assistant John Ford Baecher and United States Attorney George Morris Fay.

The suggestion of the United Press story greatly disturbed members of the committee who had, all this time, continued to press their own investigation. On the same day Representative Richard Nixon and the chief investigator to the committee, Robert E. Stripling, proceeded

¹ See appendix, exhibits 5-65.

to Westminster, Md., to question Mr. Chambers, and to obtain, if possible, any evidence in his possession which related to espionage or other illegal activities. Mr. Chambers, when questioned by Mr. Nixon, stated that he had been informed he would be in contempt of court if he discussed what he had submitted at Baltimore, at the pretrial hearing.

Chambers did not tell Mr. Nixon what evidence he had submitted at the pretrial examination except that he indicated it was highly important. That night when the chief investigator and Mr. Nixon returned to Washington, representatives of the FBI were immediately informed of the conversation.

The following morning, upon instructions of the committee, a subpoena was issued for Chambers calling upon him to produce all documents or material in his possession dealing with this case. While this was not the first subpoena served upon Chambers by the committee, it was the first subpoena calling for documents.

It should also be remembered that no other Government agency had ever before issued a subpoena upon Chambers calling for documents, though he had, in September, been summoned to New York before a special Federal grand jury on espionage as a result of the disclosures he had made in his first public hearings by this committee. When he received the committee subpoena for papers on December 2, Chambers said he was prepared to turn over all information in his possession, and thereupon he was accompanied by Committee Investigators Wheeler and Appell to his home in Westminster, Md., where he produced the five rolls of microfilm.

Three rolls were encased in a lightproof metal cylinder sealed with tape. However, one of the cylinders had been mashed or opened previously, and Chambers informed the investigators at the time of handing them over that he felt sure that this roll had been light-struck and would be worthless. These three rolls of film, he informed the committee agents, were undeveloped. The other two rolls had been developed and were wrapped in oilpaper.

The two agents marked and identified the developed film and unopened containers and returned to Washington, arriving about midnight. Investigator Appell locked the film in his bureau in his home and brought it in to the committee offices at 9:15 the following morning. It was submitted to the chief investigator, who examined the developed film through an enlarging equipment and determined that secret and confidential documents of the State Department were pictured thereon.

He then instructed Mr. Wheeler to proceed with the developed film to the laboratory of a photographic technician in the Treasury Department, for the purpose of taking enlarged pictures.

Mr. Appell, upon instructions, proceeded to the photographic laboratory of the Veterans' Administration with the undeveloped film, where a photographic expert formerly with the FBI carefully developed and preserved the evidence in full.

The committee wishes to emphasize that this film received expert technical attention from the time it was received by the committee from Mr. Chambers to the present time, and that none was destroyed or light-struck after it was surrendered to the committee.

IMPORTANCE OF THE EVIDENCE

State Department officials have testified before the committee that publication of some of these documents even today, more than 10 years after they were originally written, would endanger the national security.

An indication of the wide diversity of the subjects covered, and the confidential character of the messages involved, can be obtained by referring to the appendix of this volume, in which are reproduced those documents which have been approved for release by the State Department.²

Perhaps the most significant and disturbing feature is the fact that Messrs. Sumner Welles, John Peurifoy, and Francis B. Sayre, present or past high State Department officers, all agree that with documents of this type in their possession, agents of foreign governments would be able to break the most secret diplomatic codes of the United States.

Following is an excerpt from the testimony of Mr. Sayre:

MR. NIXON. Mr. Sayre, in this connection I have been somewhat interested in comments of some columnists and, in fact, one case attributed to an anonymous source in the State Department—I say “anonymous” because the official sources have spoken completely to the contrary on this point—to the effect that the information contained in these documents wasn’t important anyway and it didn’t make much difference if the Russians did get it or anything else.

Do you agree there was nothing important or nothing wrong with turning this stuff over?

MR. SAYRE. I violently disagree, not only because of the substance of these cables, but because some of them were in the highly confidential codes.

Now, some of those codes—for instance, the Gray code, so-called—I suspect that other governments had that, but they didn’t have these highly confidential codes; and for these telegrams to get out at the time they did meant that other governments could crack our codes, and that, I think, is indescribably horrible.

MR. NIXON. In other words, it is not only a question of this information, but it is the question of the potential information which they might have obtained?

MR. SAYRE. By cracking the code, which gives them the run of the whole thing.

This, in fact, means that not only did the government which received these identified documents have access to the information available in them, but that they, without question, also had complete access to all of the secret and confidential messages transmitted by the State Department during the period involved, through knowledge of the code system. Since this was in the general historical era of the Stalin-Hitler pact, it is also likely that Nazi Germany and subsequently Japan may have known our State Department secret codes and communications, before and during the war.

It should also be kept in mind that the documents which Mr. Chambers turned over to the committee, and in the pretrial hearing, constitute only 1 week’s supply of information and a very small proportion of the total volume which Chambers had transmitted to the Soviet Union prior to the time he decided to break with the Communist Party.

Chambers’ testimony is that he first started to microfilm documents and transmit them to the Soviet Union in the early part of 1935, and that the operation had continued weekly until April 1938.

If the documents which have been released by the committee, only 1 week’s fraction of the total volume which Chambers had obtained and

² See appendix, exhibits 66-116.

transmitted to the Soviet agents, were the only documents which reached the Soviet Union, the committee would consider the effect on United States security serious enough.

However, the testimony of Whittaker Chambers is that during the 2 years previous to the receipt of this particular batch of documents, he had been running a veritable espionage production line out of the State Department and other departments of the Government, the output of which was being funneled to Moscow by way of a skillfully run transmission belt.

HOW CHAMBERS GOT THE DOCUMENTS

Chambers testified that he had two sources of information in the State Department. His principal source, from which he obtained most of the strictly confidential documents, operated in the following manner:

The source would bring the documents out in a brief case and take them home. There, Chambers would take over the brief case and go on to meet a photographic expert at a prearranged place. The expert would take the brief case and documents to a laboratory in Baltimore, put the documents on film, and would return the brief case and contents to Chambers the same night.

Sometimes Chambers stated it would be as late as 1 in the morning before he got the brief case back. He would then proceed to the home of his source, deliver the brief case, and the documents would be returned to the State Department files.

Chambers would then pick up the microfilms in Baltimore, place them in a tobacco pouch, and carry them to New York, where he would deliver them to a Colonel Bykov, of the Soviet espionage system, who was at that time known to Chambers only as "Peter".

Because the committee does not wish to hamper the prosecution of cases under the jurisdiction of the Department of Justice, we are not making reference at this point to the names of the people whom Chambers has given as coconspirators in this criminal activity.

As far as the committee has been able to determine, Colonel Bykov had no official position in this country and was an illegally present alien spy.

The committee has taken the detailed testimony in as many aspects of this case as possible without interfering with the grand jury. It has before it evidence of the manner in which Colonel Bykov approached the sources of information within the Government and arranged, in cooperation with Chambers, for the furnishing of this information which Chambers swears was sent to the Soviet Union.

The leaders of the Russian underground in this country caused to be delivered to four high sources in the Federal Government, who had been unusually productive, expensive Russian Bokhara rugs, in appreciation for their unusual service to the Soviet Union. The committee at this time is withholding the names of the recipients and the interrogating details in order not to interfere in the present investigation of the Federal grand jury on espionage now convened in New York City.

However, at the proper time, we intend to make full disclosure, not only of this rug deal, but all matters of evidence, with specific

details, as to one of the most serious espionage cases in United States history.

Chambers testified that between 1932 and 1938 he obtained documents from the State Department, the Bureau of Standards, the Aberdeen Proving Ground, and certain information from the Navy; also that the same ring with which he worked got vital information from key United States industries. The documents pictured on the microfilm, which had been developed at the time we secured them from Chambers, were highly confidential and classified documents from the Department of State, the most important of which came from the office of Assistant Secretary of State Francis B. Sayre.

These documents bore the official stamp of Mr. Sayre and have been identified by him as having been taken from his office. Four people had access to these documents once they arrived at Mr. Sayre's office, namely: Francis B. Sayre; Alger Hiss, his first assistant; Eunice Lincoln, his administrative assistant; and Anna Belle Newcomb, secretary and stenographer for the office.

The committee had before it Mr. Sayre, Miss Lincoln, and Miss Newcomb; all emphatically denied under oath that they had ever turned any documents over to any unauthorized person.

The microfilmed documents in question, which were secret and confidential for the Secretary of State only and which were sent in the highest code, were delivered to Mr. Sayre's office from the code room of the State Department in a black metal box. When this box arrived at Mr. Sayre's office, it was opened by Miss Lincoln with a key provided for the office by the code room for that purpose only.

When Mr. Sayre's office had finished studying the documents, which sometimes took several days, the documents were placed back in the black box, locked by Miss Lincoln, and returned to the code room by code-room messengers, where, with duplicate key, the box was reopened and the contents filed in the code room's guarded record office.

The testimony of Mr. Sayre and Miss Lincoln brought out that it was a practice for both Mr. Sayre and Mr. Hiss to take documents in their brief case from the Department of State at night to their homes for study. Miss Newcomb and Miss Lincoln both testified that they had never taken any documents themselves from the State Department.

When Miss Lincoln and Miss Newcomb were shown photostatic copies of the typewritten and handwritten documents which were submitted by Whittaker Chambers at the pretrial examination in Baltimore, both testified that these documents were not typed in the State Department and that the character and form of the documents were such that they could not have been prepared for the purpose of transmitting information in the regular course of State Department business.

Mr. Sayre testified that the handwritten memos had not been prepared by Mr. Hiss for him or under his instruction. Mr. Sayre also testified that he could see no reason why the typewritten documents could or would have been prepared in the regular course of State Department business. He denied that these typed or handwritten documents were brought to his attention.

The committee is satisfied, as a result of the technical investigation and determinations which have been made by typewriter experts, that

it has been conclusively established where and on what machine these documents were typed.

In addition to the typewritten documents submitted at the pretrial examination in Baltimore, and in addition to the microfilms which Mr. Chambers submitted to the committee, Mr. Chambers also produced, at the pretrial examination, 3 documents written in the hand of Alger Hiss, the text of which appear in the appendix of this report.³

When these documents were shown to Miss Newcomb, she testified that they were not of the type which Mr. Hiss would prepare in connection with the regular duties he performed in the office of Mr. Sayre.

Mr. Chambers also testified that he received and transmitted to Russian agents information concerning a new self-sealing aviation tank developed by the Navy, the metallurgical formula dealing with the Norden bombsight, and the lists of foreign intelligence agents and naval intelligence reports.

THE EXTENT OF THE CONSPIRACY

The real dimensions of this case and its seriousness have been obscured to an extent by the controversy which has centered around Mr. Hiss and Mr. Chambers.

It now appears from the testimony and evidence before the committee that there were at the time when Chambers operated as a spy, parallel apparatuses functioning inside our Government with equal success, and that they have continued. The evidence clearly indicates that the Chambers apparatus continued to function for at least 1 year after he broke away, and it has now been clearly established that at least four of the individuals who were acting in the Chambers apparatus were also acting as late as 1945 in the parallel apparatus exposed to this committee by Elizabeth Bentley in the fall of 1948.

We have no evidence to indicate that the operations of this second apparatus do not continue to the present time. The committee knows that the desire on the part of Russian Communists for information from America is necessarily stronger today than it was before or during the war. We also know that the cooperative techniques existing between the Communists in Russia and the Communists in America are still intact, and that there are Communists in Government today.

Take the State Department for example. Between January 1, 1947, and July 29, 1948, a total of 134 individuals were dismissed "for security reasons" from the Department of State alone. The screening and dismissal program is still continuing and is still highly important to our national security. Between July 29, 1948, and December 16, another 17 individuals have been removed from State Department rolls "for security reasons." Of the total figure of 151 State Department people removed from the Federal pay roll because of findings of the Department's security board, 91 cases might be classified as of acute significance and 60 cases classified as secondary risks or bad general security cases.

America must remain alert to this grave danger within our gates and within the citadels of our protection since the conspiracies of Communist espionage are a current and continuing threat to our national peace and security.

³ See appendix, exhibits 1-4.

The committee desires to emphasize, in citing those statistics from the State Department, it is not singling out the State Department for special criticism. At this time, this is the only department on which we have the current authentic statistics. It should be added that Assistant Secretary of State Peurifoy is doing a fine public service with his security officers in identifying those disloyal elements remaining in the State Department and in having them removed from the Federal pay roll. This committee expects to continue its full cooperation in helping to obtain this objective in the State Department, as well as in all other departments of the Government.

WHEN DID THE CONSPIRACY BEGIN ?

Mr. Chambers has testified that he first became active as a courier for the Communist espionage ring in 1932, and that he had every reason to believe that the ring had been in operation for several years before that time. Chambers further testified that, several months after he broke with the Communist Party, he was informed by a member of the ring that another person had taken his place as courier for his apparatus.

GEOGRAPHICAL EXTENT OF THE OPERATION

In testimony which Mr. Chambers gave to the committee on December 28, the committee questioned him for over 5 hours concerning operations of the Communist underground involving other facts than the Hiss-Chambers case, as well as that specific apparatus. Mr. Chambers said the espionage ring recruited its personnel primarily in the United States for operation in other countries, including Japan, Germany, France, Finland, and China. Mr. Chambers also disclosed to the committee that, in his position as courier for the party, he on one occasion took a money belt from New York to San Francisco containing approximately \$10,000 for the purpose of financing west-coast spy operations.

ENORMITY OF CRIMES INVOLVED

We cannot overemphasize the enormity of the reprehensible crimes involved in the act of furnishing a foreign power with documents of vital security import. Here are crimes imperiling not merely a single individual but millions of Americans in the event of war and, as a matter of fact, the security of the Nation as a whole. Such acts precipitate wars, they destroy the fruits of martial victory, and they endanger the basic institutions of freedom upon which our liberties depend. They should receive the condemnation of all real Americans. They transcend in importance any considerations of partisanship or any bickerings between individuals or departments of government. All branches of government should cooperate in exposing the existence of these crimes and in bringing full punishment to all involved.

CONCLUSION

We have outlined now what has happened to date. There are two problems:

1. What can be done to punish and expose those who were responsible for what has happened in the past ?

2. What can be done to avoid such a thing happening in the future?

The committee will continue to follow the definite leads developed through evidence now before it. We have agreed with the Department of Justice not to interrogate in public hearing a selected group of witnesses to be called in connection with prosecuting the perjury indictment of Alger Hiss. Consequently, we are unable in this report to pursue to their logical ends many of the leads on which the committee has already developed substantial evidence. However, from the evidence at hand, we are convinced that by diligently pursuing its activities on this case our committee, if aided by equally diligent activities by the Department of Justice, will secure further indictments or confessions in connection with these espionage activities.

In connection with the problem of what can be done to avert the continuation or recurrence of espionage, we make the following recommendations:

1. Passage of legislation modeled substantially after the so-called Mundt-Nixon bill, which passed the House last year by a roll-call vote of 319 to 56.

2. The espionage laws of the United States should be substantially strengthened by early laws of the new Congress, with special attention to means for returning aliens to other countries upon conviction for crimes against the United States.

3. The penalties for those properly cited for contempt of Congress should be increased to a minimum of 5 years in prison and a \$5,000 fine.

4. Our immigration laws and passport visa regulations should be carefully studied to determine what changes are necessary to prevent disloyal elements from entering this country and remaining here.

5. Finally, we believe that the work of the committee and its far-reaching results provide a tribute to the foresight and persistence of the House of Representatives for creating and supporting, for the past 10 years, its own committee, which has been in the forefront of those forces combating the evil of communism which has become such an imminent threat today to our Christian civilization.

As a result of this decade of service, the House now has at its disposal the greatest file against un-American subversive forces which exists anywhere in the world today. The committee should be continued.

L'ENVOI

Our committee has learned with genuine regret that Chief Investigator Robert E. Stripling has submitted his resignation and is returning to his native State of Texas to enter private business.

It is our studied opinion that Bob Stripling has become one of the best informed men in the United States on the identities, the tactics, and the end objectives of the Communist conspiracy. He has few equals and no superiors in his knowledge of the treacherous methods of disloyal, un-American elements in this country.

At considerable sacrifice to himself and family, he has for more than a decade suffered the carping criticisms of the Communist clique in this country and the uninformed attacks of honest citizens who have been misled by irresponsible reports of his activities and motives. He has been a bulwark in the fight to maintain freedom in America. It

will be a task of unrivaled difficulty to find a replacement for him. Both in private life and as a soldier in the late war, Bob Stripling has been a splendid exemplification of the type of patriotic, clear-thinking, and unselfish young men upon whom America must depend and whose devotion to public service and duty is a credit to our way of life.

Unanimously approved by the subcommittee, December 30, 1948.

APPENDIX

EXHIBIT 1

2

30 Potey 63

a lot of type

Exp 10/11

About March 2 U.S. embassy in Paris called
that although France was permitting shipment of
military supplies, ^{to China} via Indo China only to fill
existing orders, it was understood that this
instruction was being liberally construed.
In instance the military Attache had learned
that China had recently placed an order in
Paris for 30 Potey-63 planes, one of the
type French types, a light bomber-pursuit

EXHIBIT 3

March 3 Johnson U S Charge at
London cabled that Lord Chatfield
had told the Naval Attache that
whether escalation was eventually
decided on or not he would not
change his plans for cruisers this
year and in any case new battleships
3 would not be laid down before the

EXHIBIT 4

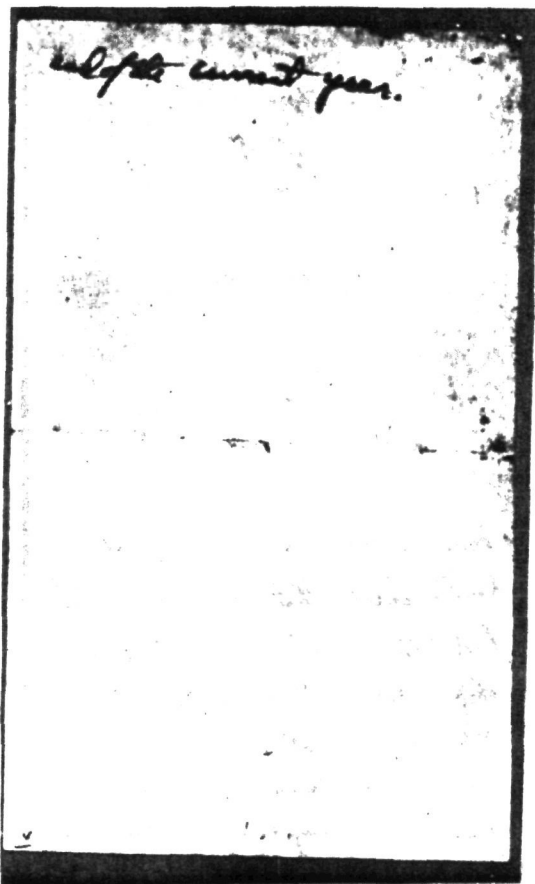


EXHIBIT 5

Tokyo

Dated February 12, 1938

Rec'd 1:10 p.m.

Secretary of State,
Washington.

100, February 12, noon.
Strictly Confidential

One. My British colleague who talks to me freely and so far as I can judge frankly, has told me of the following conversation with the Minister for Foreign Affairs on February 9 which would appear to be significant owing to the marked change in the Minister's usually placid, courteous and friendly bearing. The fact that for the first time in our respective dealings with him Hirota twice lost his temper with Craigie might be due to nervousness engendered by the strain of the current sessions of the Diet or the mounting irritation at the tone, insistence and volume of Craigie's continual representations both oral and written in connection with British interests in China or perhaps to both. The Minister's demeanor tends to confirm reports which have come to both Craigie and myself that Hirota is steadily becoming harder and more intransigent as regards foreign interests in the Far East and that it is Hirota rather than Suetetsugu who leads the ultra Chauvinistic element in the Government. I myself have as yet seen no outward demonstration of any change of attitude on Hirota's part as regards America interests.

Two. The conversation referred to arose when Craigie informed the Minister that he is in possession of evidence indicating that Japanese forces have occupied several of the smaller Chinese islands in the general vicinity of Hong Kong and again asked for specific assurances that the statements of the Japanese Government that it has no territorial designs in China apply as well to the islands as to the mainland. According to Craigie the Minister in some instances in their intercourse became very angry, inveighed against the continual British demands for renewed assurances, said that under present war conditions Japan had given all the assurances that can reasonably be expected, and asserted that if the warfare is prolonged Japan may be forced to occupy more territory whether insular or on the mainland. If the warfare becomes permanent, said Hirota, the occupation will also be permanent. Referring specifically to Hainan, Hirota said that the Japanese could not possibly give a permanent pledge not to occupy. Craigie pointed out that whereas Hong Kong cannot be regarded as a threat to Japan the occupation of these islands by Japanese forces does constitute a very real threat to Hong Kong. The general tone of this conversation appears to have been acrimonious.

Three. Craigie is aware that there are large concentrations of Japanese troops in Formosa (see our 61, January 31, 6 p.m.) and of Japanese ships in the port of Takao and he believes that an attack on Canton or some other point in South China is impending.

Four. Craigie's general reaction to this conversation with Hirota is that the longer the warfare is prolonged the greater will be the likelihood of permanent occupation by Japan not only of the islands but of territory on the mainland. He believes that Japanese assurances of "no territorial designs" are likely to be withdrawn at short notice. These prospects so seriously concern British

EXHIBIT G

- 2 -

interests that he contemplates recommending ~~as has already recommended~~ or has already recommended to his Government (a) that continued support of Chiang Kai Shek, whether by furnishing war supplies and funds or otherwise, is detrimental to British interests and (b) that the British Government should be alert to foster any outlook for peace negotiations which might leave to China any hope of eventual resurrection.

Five. Craigie is informed and believes that it was the Japanese industrialists and politicians and not the military who favored and brought about the withdrawal of recognition from the Central Government.

Six. I think that the nature of the conversation reported above indicates that our own practice of concentrating our representations to the Minister on important issues and with discreet timing is likely to prove more effective than the British practice of constant hammering by almost daily notes, letters, and other communications with continual personal visits to the Minister or the Vice Minister both on important and routine issues. The British procedure appears to be based on the theory that constant hammering will wear away a stone but in the present temper of the Japanese Government and military this practice is liable to defeat its own object through the irritation which it inevitably engenders, clearly demonstrated in Craigie's last interview with the Minister. The representations of the American Government are at least listened to with respect and an evicent inclination on the part of the Foreign Office to meet our wishes so far as the military can be influenced in that direction.

Seven. About two weeks ago Craigie told me that he had heard from a trustworthy source that there was to be a change for the better in the Japanese attitude toward Great Britain and that press and other agitation against the British was to be discontinued. I did not put much stock in Craigie's information. Since then General Matsui in the interview which he gave to Woodhead sharply criticized the British for trying to create political issues out of the problem of reserving British economic and commercial interests in China while the Japanese press has expressed the conviction that it was Great Britain which initiated the three power barmarche with regard to naval construction. The feeling in Japan against the British is not in our opinion altogether artificially created as Craigie believes it to be but flows from the conviction that the British are constantly endeavoring to establish a common front against Japan in order to preserve British political and economic interests in the Far East.

Report to Hankow.

GREW

EXHIBIT 7

GRAY
Chefoo via N.R.
Dated Feb. 14, 1938
Rec'd 12:04 p.m.

Secretary of State,
Washington.

February 14, 2 p.m.

Japanese marines have been proceeding eastward from Chefoo to Muping (Ninghai) by motor 13th and 14th. Current reports indicate that armed Chinese in bodies of considerable size in mountains south of Muping are opposed to Chinese authorities of the new regime. There are no Americans in Shantung east of Chefoo.

ALLEN

EXHIBIT 8

GRAY
Peiping via N.F.
Dated February 14, 1938
Rec'd 9:20 a.m.

Secretary of State,
Washington.

110, February 14, 6 p.m.
Embassy's 104, February 11, 5 p.m.

One. Passenger trains on the Peiping Hankow Railway have not left or arrived at Peiping yesterday and today except for service between Peiping and Changhaintien, a few miles south of Peiping. This partially substantiates widespread but unconfirmed reports of activities of Chinese irregulars at Paoting and points along the railway south thereof.

Two. Press reports of Japanese advance southward in Southern Hopei have not been confirmed. An American reports that several tens of thousands of Japanese troops have moved during the last few days from Shikhiachuang in the direction of Taiyuan. With large numbers of Japanese troops already in Shansi and in Southern Hopei and Northern Honan, it is doubtful whether irregulars to the north of them can seriously hamper their movements unless the irregulars are supported strongly by the National Government.

Repeated to Hankow. By mail to Tokyo.

LOCKHART

EXHIBIT 9

Special Gray

Tientsin via N.R.
Dated February 17, 1938
Rec d 8:30 a.m.

Secretary of State,

Washington

39, February 17, 2 p.m.
My No. 29, February 11, noon.

I have been reliably informed that 412,000 gallons of kerosene have been imported duty free at Tientsin under Japanese military auspices during February and that 354,000 gallons of duty free kerosene were forwarded to Peiping by the Japanese Takas Petroleum Company between January 1 and February 12 to be placed on the market there.

CALDWELL

EXHIBIT 10

Gray
Tokyo
Dated February 17, 1938
Rec'd 9:10 a.m.

Secretary of State,
Washington.

111, February 17, 5 p.m.

The British Ambassador today furnished me with the following statement regarding smuggling in North China:

"His Majesty's Charge in China has received reliable confidential information that during the period January 24th to 31st over 17,000 packages were landed near Ch'wangtao without payment of duty. The duty on sugar alone thus evaded was almost 50,000 even at the new tariff rates".
Reported to Shanghai.

GREW

EXHIBIT 11

February 9, 1938

No. 10

Yokohama reports that Mr. Aikawa is scheduled to sail from Japan on the M.S. Shichibu Maru February 24 for the United States. According to a newspaper item in the Japan Advertiser Mr. Aikawa hopes to raise 300,000,000. in the United States. Another Japanese newspaper item states that the success of Mr. Aikawa's efforts in the United States depends upon Mr. Aikawa's ability and upon the attitude of the American government toward his venture.

RE: Jones: NK

EXHIBIT 12

Far East

Jan. 29. Lockhart of U.S. Embassy at Peiping cabled that as a result of the protests of the United States, the Japanese military authorities had decided not to quarter troops in the Tsinhua University buildings.

Jan. 30. Grew cabled from Tokyo that the U.S. Military attache had supplied him with a memorandum stating substantially the following:

"An unusually large number of Japanese troops has been assembled in Formosa, one estimate from Warner at Taihoku running as high as 100,000. Great secrecy is being maintained regarding this force, and it has been impossible to determine its strength, composition or location.

"However, the presence on the island of Formosa of anything beyond the normal garrison which is usually not greater than 10,000 men is significant at this time." The memorandum added that Formosa is obviously in no danger of attack by the Chinese and is a good base for attacks on Amoy and other coastal cities.

Jan. 31. U.S. marine commandant (presumably at Shanghai) radioed that the Japanese were reported to be reinforcing the Wuhu region with 5,000 troops which left Tientsin on January 29.

Jan. 31. Hull cabled Phillips, U.S. Ambassador to Rome, to investigate fully the report of the U.S. consul at Milan that 80 Italian aircraft and 50 airmen had been ordered to Japan. Hull said that President Roosevelt was disturbed that a number of Italian aircraft and especially aviators of the regular or reserve forces should be ordered to Japan. Hull added that if Phillip's investigation showed any basis for the report he would probably ask Phillips to make a direct inquiry of Italy.

Feb. 2. Lockhart cabled that he had been informed that the decision not to quarter troops in Tsinhua University had been changed and the original plan would be adhered to.

Feb. 2. Grew cabled from Tokyo that the British Ambassador informed him that war supplies to China through Hong Kong had been furnished by countries according to the following percentages: Germany 62%; Italy 21%; France 12%; and Great Britain 3%. The remainder were divided between Belgium and the United States. Craigie had told Grew that he took particular pleasure in communicating these figures to the Japanese Vice Minister for Foreign Affairs.

EXHIBIT 13

Far East

Jan. 22. from Tsingtao, Dorn, of the U.S. Military Attache's staff cabled that the Japanese landed one battery of truck drawn 10 centimeter howitzers and four batteries of horse drawn 77 millimeter guns.

Jan. 22. Johnson, U.S. Ambassador to China cabled from Hankow the following message from Stillwell, U.S. Military Attache, for the War Department:

"One. Military situation Yangtze Valley unchanged. Death of Liu Hsiang and appointment of Chang Chou as Szechwan Governor gives Central Government better hold on Szechwan. Japanese making progress toward Hanchowfu along railroad from South. Believe Hanchowfu will not hold long.

"Two. Reliable report from foreigner with long experience in northwest indicates heavy traffic on(?) Lanchow(?) highway. Estimates 1500 heavy Russian trucks operating hauling munitions. Daily arrivals Lanchow 100 to 200 trucks. He has counted 400 in one day. Saw four Russian tanks and over 50 Russian planes at Lanchow on Jan. 1. Highway being surfaced throughout. Large gangs Chinese laborers working. 700 Russian mechanics, chauffeurs, etc quartered in village near Lanchow handling transport. Individual truck capacity four tons. Russians are chauffeurs west of Lanchow; only Chinese chauffeurs east thereof."

Jan. 27. Lockhart, of the U.S. Embassy in China cabled from Peiping that on Jan. 25 a Japanese officer had ordered the evacuation of the science and biology buildings of the National Tsinghua University. All equipment would have to be removed by Jan. 27. The officer explained that the buildings would simply be borrowed for use as barracks for 3 or 4 months and were needed for housing part of the 20,000 Japanese troops that were to arrive in Peiping shortly.

Jan. 29. Harrison, U.S. Minister at Geneva, cabled that he "learned this morning in strict confidence from Vice President of Board of Managers of Swiss National Bank that Japan has been putting out feelers regarding possibility of obtaining a large loan in Switzerland. He gave me to understand that the Swiss National Bank is definitely unfavorable."

Jan. 28. Lockhart cabled from Peiping that American military observers at Peiping estimate that 60 trucks and 18 narrow gauge locomotives arrived in North China between Jan. 19 and Jan. 25. According to French observers 10,000 effectives arrived in North China and 3,000 departed during first two weeks in January.

Jan. 29. Sholes, U.S. consul at Milan cabled that the "80 Italian air craft and 50 Italian airmen, some recently returned from Spanish front, it would appear, have been ordered to Japan. Embassy was informed aircraft shipments January 25 last. My British colleague called upon me today. His figures place aircraft sent at 50."

EXHIBIT 14

Far East

Feb. 11. Lockhart, U.S. counselor of Embassy at Peiping, cabled that reports indicate that the Japanese are continuing preparations for advances southward along the Peiping-Hankow Railway, and in Shansi. The number of Japanese troops going south on that railway has increased; the number of Japanese forces on the Taiyuan plain has been increasing; railway materials have been sent south, presumably for repair of the line destroyed south of Changteh; Japanese expeditions to cause the retirement of irregular forces west of the Peiping-Hankow Railway and north and south of the Shikiachuang-Taiyuan Railway have reportedly increased for the purpose of rendering flank attack against the Japanese more difficult. Rumors of a western movement of Japanese in Suiyan can not be confirmed in Peiping.

Feb. 11. Gauss, U.S. consul general in Shanghai, cabled that the University of Shanghai in the Yangtzepoo District which was occupied by Japanese military and naval units was adjacent to a golf course which was being used as an airfield.

EXHIBIT 15

Japan

46

On March 30 the Department cabled to the U.S. legations at Costa Rica and at Panama:

"The Department has learned from a presumably reliable source that certain Japanese have approached the E.W. Creevy Trading Company with respect to the ~~possibility~~ possible purchase of a manganese mine said to be owned by that company on Cocos Island."

March 31. The U.S. legation at Panama replied:

"Neither of Creevys in Panama since December nor has shown active interest in Panama manganese although reported developing Guanacaste, Costa Rica, deposits. No manganese deposit or Creevy interest in Costa Rican Cocos Island heard of in presumably informed sources in Panama but confirmation by the Legation at San Jose is suggested.

"Creevys reputedly capable of such deal or of publicizing fictitious foreign offer for promotion purchases."

April 1. U.S. Legation at San Jose, Costa Rica, cabled that there were no manganese deposits on Cocos Island, that the Creevys had available 4,000 tons on the Guanacaste coast of Cocos Bay.

March 31. The Fourth Regiment of U.S. Marines stationed at Peiping (?) cabled that one regular Japanese division had recently been transferred from Central China to Japan.

March 23. U.S. consul at Cairen in a cable referring to commercial treatment of American products stated that a few days before a permit entry had been granted for 1,000 American motor trucks purchased by the authorities in Hsinking.

EXHIBIT 16

Far East

March 28. Grew, U.S. Ambassador to Tokyo, cabled that the Commercial Attache had been informed by an official of the Bank of Japan of the following gold shipments (presumably to the U.S.): 20,000,000 yen on March 27 via the Kinkwa Maru, 20,000,000 yen via the Komaki Maru on April 8 and 30,000,000 yen via the Titibu Maru on April 9.

U.S. Marine detachment at Tientsin reported by naval radio on March 28 as follows:

"During 21-28 March approximately 700 Japanese wounded or sick evacuated via Chinwangtao. No unusual troop movements. Hospital ship unloading supplies, nature undetermined."

EXHIBIT 17

No. 41

March 28. U.S. consul at Tampico, Mexico, in a cable describing the oil industry situation stated that a Japanese tanker was expected at Tuxpam the morning of March 29.

EXHIBIT 18

February 11, 1933

S.
Mr. Secretary
U.
Mr. Welles
A.S.
Mr. Sayre
E.
Mr. Feis
A-K/C
Mr. Murphy

I feel that you all wish to have knowledge of the facts and appraisals given in Mr. Jones' very informative memorandum hereunder (based on Consul Boyce's report).

SKH

P/H: SKH: ELK

EXHIBIT 19

17/38

Reliable source reports that since signing the tripartite anti-Comintern Pact an agreement has been reached whereby complete Italian and German military aircraft engineering and design data, plus the services of technical advisers, are made available to Japan.

A "Shanghai Mail" report states that German experts on ordinance and airplane matters are now in Japan.

American military attache at Hankow paints gloomy picture of China's present military plight. States that a Chinese counter-offensive is unthinkable and he doesn't believe a force that can offer serious resistance can now be created.

Japanese are reported to be moving 80,000 fresh troops from Japan via Mukden. First of these troops arrived at Mukden on December 1th. Believes they are destined for the northern frontier. Barracks with a capacity of 50,000 troops are reported to have been erected at Chaimssu and Paili in northeast Manchuria. Other barracks with capacities for 100,000 troops are reported to be located between railroads which are rapidly being pushed to the Mongolian and northeast frontiers. Japanese agents are reported to be fomenting action by Mohammedans in Kiangsi and Chenghi, to harass the Prucid-Lanchow Road.

011

EXHIBIT 20

GRAY
London
Date: February 16, 1938
Rec'd 3:02 p.m.

Secretary of State,
Washington.

136, February 16, 7 p.m.

Your 57, February 4, 7 p.m., and previous.

Strictly confidential.

Admiral Lord Chatfield talked informally but at some length yesterday with Captain Willson concerning escalation under the London Treaty. Based on this conversation it appears probable that the Admiralty will favor for this Year's programme raising the battleship limit to about 38,000 tons and making no change in cruiser limits. Captain Willson forwarded a full report by mail to the Navy Department in yesterday's pouch via QUEEN MARY.

JOHNSON.

EXHIBIT 21

London, No. 257, March 28, 8 p.m.

"My 241, March 23, 7 p.m.

"I have just finished an hour's talk with Grandi who recently returned from Italy.

"First, he is vitally concerned regarding America's opinion of Italy. Second, he informed me that the agreement with England will positively go through within the next few weeks; the Spanish situation will not stop the agreement, settlement of that problem being taken care of. Third, he impressed me with the fact that the Italians will have a sigh of relief on making this deal with England which will relieve them of being so closely identified with Germany. In answer to Moffat's letter to me of March 14, I would say that in my opinion the successful conclusion of this agreement would definitely weaken Italy's connection with Germany.

"Grandi was not particularly flattering in his opinion of Goering. Hitler we did not discuss. He is very impressed with Chamberlain and says that he has enjoyed the last month in England more than the previous five and a half years because of the Prime Minister's attitude."

KENNEDY

EXHIBIT 22

Paris
 Dated February 15, 1938
 Received 3;17 p.m.

27

Secretary of State
 Washington

240, February 15, 3 p.m. Section One.

I have just discussed with Leger the situation created by Schuschnigg's visit to Berchtesgaden.

Leger said that Schuschnigg had informed the French Minister in Vienna very privately and confidentially that he had been received with the utmost brutality. Hitler had had three generals including Reichenau standing behind him throughout the conversation and had made the following four demands: (one) that the Austrian Government should declare an amnesty for all Nazis and permit those now in Germany to return to Austria; (two) that those Nazis who had been deprived of their pensions and positions because of their political affiliations should be restored to their pensions and positions; (three) that Seyss-Inquart should be appointed Minister of the Interior and given control of the entire Austrian police force; (four) that Austria should agree to take no action with regard to foreign affairs without previous consultation with the German Government.

Leger went on to say that Schuschnigg had returned to Vienna intensely depressed and that Guido Schmidt was doing his best to persuade Schuschnigg to accept these demands of Germany.

Leger made the obvious comment that the acceptance of these demands would mean the end of Austrian independence.

Section Two. I asked if the French Government had taken any action in Vienna or given Schuschnigg definite advice. Leger replied that there had been no formal contact whatsoever between Schuschnigg and the French Minister since the former's visit to Berchtesgaden. The information which Schuschnigg had given the French Minister had been given most privately and Schuschnigg had not asked for advice nor had any been given him.

Leger went on to say that he did not know whether or not the French Government would decide to urge Schuschnigg to reject these demands. The question would have to be decided by Chamberlain and Dalbos after consultation with Chamberlain and Eden. The decision would in his opinion rest on the interpretation of recent events in Germany.

A message had been received from Francois Poncet giving what he, Leger, believed to be an accurate account of the genesis of the Berchtesgaden visit. Hitler's old Nazi friends had been urging him to give up the idea that he could acquire Austria by peaceful evolutions and to turn to the method of force. Hitler was most loath to use force because the generals of the Reichswehr had convinced him that the army would not be in condition to fight a major war against France and England for approximately another year. Hitler therefore had wished to make a last attempt to gain his objective by overwhelming Schuschnigg's will to resist.

Section Three. He had had the three generals present in order to make it clear to Schuschnigg that if necessary there would be force behind his words.

An additional reason for Hitler's reluctance to use force or threat of force was the fact that during the present period of preparation of the German army he wished to avoid any act which might produce a strong government of national defense in France and

EXHIBIT 23

-2-

an intensification of British war preparations and incidentally an increase in American hostility to Germany.

Leger went on to say that both he and Francois Poncet were entirely convinced that if Schuschnigg should accept the first two demands of Hitler but reject the final two demands Hitler would not dare to use force. He would employ every means short of mobilization to make life uncomfortable and impossible for the Austrian Government but would not mobilize. Leger said that he was not sure that Chautemps and Delbos would agree with him in this diagnosis. It was possible to believe that Hitler would mobilize three or four divisions on the Austrian frontier and that Schuschnigg would be forced to give way at a moment of great European crisis.

Section Four. If one adopted the latter interpretation, it would obviously be less dangerous to have Schuschnigg submit now rather than later. Leger said that there were indications that the latter interpretation might be the interpretation of the British Government. In that case France would do nothing.

Schuschnigg would have to be assured of at least moral support from France and England and perhaps also Italy in order to be in a position to resist.

Leger said that the French and British Governments would discuss the problem this morning. He added that Hitler had not delivered an ultimatum with a time limit to Schuschnigg and he believed that Schuschnigg would attempt to gain time by standing on his dignity for a brief space.

BULLITT

EXHIBIT 24

Paris
Dated Feb. 15, 1938
Rec'd 5:03 p.m.

Secretary of State,
Washington.

241, February 15, 4 p.m.
Reference my 194, February 4, 6 p.m.
Confidential

The same informant in the Austrian Legation advised us today that for the past few weeks Italy has assured Austria that in the event of German aggression against Austria Italy will mobilize. Italy has, however, at the same time urged Austria to temporize as much as possible with Germany in order to gain time and not put Italy in the position of having to take such action.

Our informant likewise stated that he had talked over the telephone to Vienna this morning and that it was his impression that Chancellor Schuschnigg would probably appoint Seiss-Inquart as Minister of the Interior and head of public security but would have the control of the government police taken away from the latter department and put under the Prefect of Police in Vienna; thus outwardly acceding to Hitler's demands but actually not doing so in that the latter's real desire was to have a Nazi sympathizer control the police.

BULLITT

EXHIBIT 25

Paris
Dated February 16, 1938
Rec'd 3:47 p.m.

Secretary of State,

Washington
249, February 16, 3 p.m.
Strictly confidential for the Secretary.

The Austrian Minister has just read to me a telegram which he received this morning from Schuschnigg. It indicated that Schuschnigg has by no means given up hope of maintaining Austrian independence.

Schuschnigg had confidence that Seyas-Inquart, although a pro-German, would not work in an underhanded manner for the introduction of Nazis into the regime.

Amnesty would be extended at once not only to Nazis but also to Social Democrats. This amnesty would, however, not include those who had emigrated from Austria thus excluding from the country all those Austrian Nazis who are now in Germany.

The right to conduct political propaganda would be extended not only to the Nazis but also to the Monarchists and Social Democrats. Those Nazis who had been excluded from office and pensions because of their political opinions would have their pensions restored but would not be given their former offices.

The position of Schuschnigg was, I gathered, the following: that he would continue to struggle for Austrian independence; that he believed this independence could be maintained in the long run only if there should be reconciliation between England, France, and Italy; that he considered recognition of Ethiopia essential for any such reconciliation since the Italians were genuinely convinced that the British at some future date would attempt to drive the Italians out of Ethiopia which would mean the collapse of the Fascist regime in Italy.

Section Two. Schuschnigg felt that the actions which he was about to take would produce a temporary breathing period but in the end would prove to be just as unsatisfactory to Hitler as his actions which followed the accord of July 1936. He expected therefore that at some future date Germany would attempt again to repeat the Berchtesgaden coup and would mobilize if necessary on the Austrian frontier. He would make no further concessions. He could not attempt to fight Germany alone and if faced by German mobilization would have to resign.

The question of Austrian existence as an independent state therefore depended on the possibility that before Hitler again should become sufficiently irritated to mobilize on the Austrian frontier there might be reconciliation between England, France and Italy and an agreement between those states to support Austrian independence.

The Austrian Minister added that he believed the extension of amnesty to the Social Democrats would add greatly to the strength of Schuschnigg's regime as the Social Democrats would be the strongest opponents of a gradual Nazification of Austria.

My own construction of the opinions expressed above with regard to the situation was told this morning by a gentleman who says he knows Inquart intimately that the latter is a hundred

EXHIBIT 26

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per cent Nazi by conviction although a devout Catholic and that he will insert Nazis gradually into all vital posts and strike for a decision in a few months.

BULLITT

EXHIBIT 27

Paris
Dated February 16, 1938
Rec'd 4:34 p.m.

Secretary of State,
Washington

255, February 16, 9 p.m.

In conversation today the Belgian Ambassador who served in Berlin before coming to Paris said that in his opinion the Austrian situation might easily have found a worse solution than the temporary one actually reached. Everyone knew that in the absence of a determined stand by Great Britain and France Hitler could seize Austria whenever he wanted to. As a matter of fact he had not seized Austria but had come to an agreement with Schuschnigg by brutal methods, it is true, under which Austria could be allowed to continue as an independent state for the time being at least. Kerchov attached great importance to the fact that Skubl as Undersecretary of the Department of Security is apparently to continue in control of the Austrian police and felt that this as well as other points which Schuschnigg is reported to have obtained indicate that there has not by any means been complete abdication in the face of Hitler's demands.

BULLITT

EXHIBIT 28

Paris
Dated February 17, 1938
Rec'd 3:35 p.m.

25

Secretary of State,
Washington.

269, February 17, 8 p.m.

The Foreign Office states that Francois Boncet is seeing Ribbentrop at five o'clock this afternoon. The appointment was asked for the day before yesterday but Ribbentrop was unable to set an hour before this afternoon. Francois will request information concerning the exact significance of the meeting at Berchtesgaden on February 15 and will state that the French Government has a deep interest in whatever takes place in Central Europe.

The British Ambassador in Berlin saw Ribbentrop on the 15th and made a demarche along the lines of the foregoing. He was told that the discussion at Berchtesgaden with Schuschnigg had been concerned only with removing the causes of difficulties which had arisen from the working of the Austro-German agreement of July 1936 and that a communique could be issued shortly giving all pertinent information (this was before the final decision of the Austrian Government had become known).

The French do not expect to receive any more satisfactory or enlightening response from Ribbentrop than was given to the British. They state however that the fact that this step has been taken in Berlin by both the French and British Governments has some importance as manifesting the interest of both Governments in what transpires in Central Europe.

It seems clear however that the French and British action in Berlin has been taken mainly for the sake of the record out of a feeling that they could hardly afford to pass by recent events in complete silence.

Copies to Berlin, Vienna.

SMULLITT

EXHIBIT 29

Vienna

Dated February 13, 1938

Rec'd 3:50 p.m. Feb. 13

Secretary of State
Washington

17, February 13, 6 p.m.

My 16, February 13, 1 p.m.

Reports from reliable source indicate that Hitler made unacceptable demands and that Austrian Government is now formulating counter-proposals. Government inaccessible to Diplomatic Corps. Even French Minister who was promised appointment has been unable to see Schmidt. It seems possible that Hitler is seeking foreign political triumph at the expense of Austria to redress adverse effect of party crisis.

Innsbruck correspondent of an American news agency reports Ribbentrop passed through today en route to Italy. Rumors from several sources alleged that Schuschnigg had long telephone conversations with Mussolini before proceeding to Berchtesgaden.

Small Heimwehr demonstration this afternoon for Starhemberg. Austrian legitimists reported discouraged over probable course of events.

WILEY

EXHIBIT 30

Vienna

Dated February 14, 1938

Rec'd 11:45 p.m.

Secretary of State,
Washington.

18, February 14, 9 p.m.

My telegram No. 16, February 13th.

Have just seen (? illegible word) Schmidt and he told me that the Berchtesgaden conversations had been extremely "hard" and that he had to admit that Schuschnigg had been under heavy pressure. I inquired whether Schuschnigg had been confronted as rumored with the text of an agreement already signed by Hitler. He denied this and stated that during the protracted conversations every possible combination had been debated. He admitted, however, that three ranking generals had been present in order to increase the pressure and did not deny a rumor that Hitler had threatened trouble in the event that Schuschnigg refused to accept Hitler's proposals. It had all, however, come to a happy end and he felt that a great service had been rendered to world peace. He would not promise that the solution would be a permanent one. Probably Austro-German relations would again come to a crisis and require revision.

I asked Schmidt whether an agreement had actually been definitely concluded. He replied that the agreement had not as yet been formally reached but that he thought it would be and that a joint communique would be issued. I inquired with regard to details. He told me that the agreement would comprise all of the basic elements of the July 11th accord and admitted that Hitler had requested the inclusion of Seyssinwart in the government as Minister of Public Security. Police President Skubl however would remain. Schmidt assured me that the Chancellor had complete confidence in Seyssinwart and that he, Schmidt, did not regard him as an obstacle to appeasement. He said that "if he is loyal we prefer to have Nazis arrested by a Nazi. If he is not loyal it will mean that appeasement between the two countries is not possible and something else will have to be done." I suggested that as late as two years ago Seyssinwart had been working actively on behalf of the Nazis. He replied that Seyssinwart was a devout Catholic and since that time the "Kultur Kampf" had broke out. Moreover Seyssinwart was in deadly opposition to Captain Leopold the illegal Austrian Nazi leader. I suggested that if Seyssinwart was loyal to Schuschnigg I did not understand why Hitler placed such emphasis on his inclusion in the government or if he was not loyal how the Austrian Government could risk turning over the police control of the country to him. Schmidt replied that he had raised the same question with Hitler. However there was always a "middle way" and he hoped that it would be found in the present instance. (I could not obtain clarification of this.)

I (*) Schmidt if it was true that Schuschnigg had shown Hitler documents seized in Tava affair incriminating Nazi leaders in Germany. He replied in the negative stating that this had previously been done through Papen. (Papen definitely leaves end of this week.)

Schmidt added that while it had been agreeable to work with Ribbentrop he had the definite feeling that Ribbentrop had inwardly been much opposed to the results achieved.

EXHIBIT 31

I queried Schmidt with regard to the Italian attitude. He was non-committal save for the admission the Italian Government was informed of the negotiations well in advance.

I told Schmidt that my Government maintained a deep and sincere interest in the welfare of Austria and I was sure it hoped earnestly that the Austrian Government would firmly resist threats against the independence of Austria.

I have learned indirectly but reliably from the Federal Press Service that in return for the appointment of Seyssingwart Hitler promised the maintenance of the principles the July 11th agreement with recognition of Austria's independence, say (?) the patriotic front as the unique political structure of Austria together with a pledge of non-interference in domestic affairs; economic matters were not mentioned.

Schuschnigg avoided committing himself stating that he was not authorized to sign any agreement without previous consultation with President Miklas. According to the press service the attitude of the Chancellor was that the portfolio of Public Security which he now retains could only be confided to some one having his entire confidence. President Miklas was opposed to the proposed concession.

From another source reliably informed Hitler promised to dissolve Austrian legion in Germany. About a thousand workmen at Austro Fiat and Clayton Shuttleworth factories made a short protest strike this morning against concession to National Socialists.

My feeling is that inclusion of Seyssingwart in the Government would be stopgap solution reflecting force of German pressure and would profoundly discourage spirit of resistance in Austria.

WILEY

(*) Apparent omission.

EXHIBIT 32

Vienna
 Dated February 15, 1938
 Rec'd 12:32 p.m.

Secretary of State.
 Washington.

Rush.

20, February 15, 1 p.m.

My telegram February 14, 9 p.m.

Dined last night at a large dinner given by Schmidt with Chancellor Schuschnigg, Seyssinwart, members of the Government and diplomatic corps. Atmosphere most oppressive. To French Minister Schuschnigg described visit to Berchtesgaden as the most horrible day of his life. He says that Hitler undoubtedly a madman with a mission and in complete control of Germany. Hitler openly told him of his desire to annex Austria and declared that he could march into Austria with much greater ease and infinitely less danger than he incurred in remilitarization of the Rhineland. Schuschnigg admits that appointment of Seyssinwart is highly dangerous but states that he will make it in order to avert the "worst." In respect of Italy, Schuschnigg declared that he can count only on moral not material support.

Schuschnigg is attempting to make best of bad situation and was in a long and friendly conversation with Seyssinwart. Hornbostel is in utter despair and states openly that there is nothing left for him to do but to leave Foreign Office.

Italian Minister claims that he was informed of Berchtesgaden meeting only on the eleventh and denied that Italy took any initiative in the matter. He telegraphed full information to Mussolini. Latter however is engaged in winter sports and up to last night Ghigi had no information that his messages had reached the Duce. Italian Minister gives anxious impression.

Papal Nuncio admits that Seyssinwart may be good Catholic but fears nevertheless that it is the beginning of the end.

The French Minister who has been here five years states that this is the most critical moment since July 1934. "It is not the end. It is the moment before the end." In his opinion Austria can only be saved by immediate reconciliation of France and England with Italy and energetic joint act. Underre author of May constitution made identical remark this morning.

In my opinion Austria's situation is most unfortunate and menacing. If Seyssinwart is loyal his appointment would not be a solution. If he is disloyal it is a catastrophe. Germany probably plans gradual Danzigification and any unsupported efforts of Schuschnigg may make to outmaneuver Seyssinwart can at best only retard this process.

Repeated by telegraph to Paris, London, Berlin and home.

WILEY.

EXHIBIT 33

Vienna

Dated Feb. 16, 1938

Rec'd 8:48 p.m.

Secretary of State,
Washington.

Rush

25, February 16, 10 p.m.

Strictly confidential

My 21, February 15, 5 p.m.

Have just seen Minister for Foreign Affairs Schmidt who seemed on the whole cheerful. He expressed confidence that a period of internal quiet would ensue but felt nevertheless that like the agreement of July 11 only temporary appeasement could be obtained. The task of Seyss-Inquart would be to bring into the fold those elements which have so far been irreconcilable. He did not know how this could be accomplished and foresaw that Seyss-Inquart would have difficulty with Nazi extremists. Probably several new councilors of state would be appointed but this had already been under deliberation with Seyss-Inquart for some time. I asked what further steps the Austrian Government would take in carrying out Berchtesgaden agreement. He replied that pensions would be given to ex-functionaries who were dismissed for Nazi activities. They would, however, not be reinstated. The amnesty did not apply to the Austrian Legionnaires in Germany. He desired that someone be appointed in administrative capacity to look after Austro-German press matters under the two governments. This move he said had not been dictated by Hitler.

Schmidt said that present German maneuvers on the Austrian frontier had been planned for two months. He did not believe that they were a military demonstration against Austria.

Also saw the French Minister who has interviewed Schuschnigg and Hornbostel with both of whom he has unusually close amicitious relations. Paux told me that formation of cabinet was bitterly contested. Papen made a last minute effort to have Glaise Horstenau made Vice Chancellor and an outstanding Nazi appointed Minister of Justice.

(I am reliably informed that Bishop Gfoellner of Linz rushed to Vienna despite illness and urged resistance upon President Miklas. In consequence Catholic Church claims credit for saving these posts from Nazis.)

Schuschnigg informed the French Minister that in Berchtesgaden conversation Hitler boasted to him of military prowess of Germany, deprecated French military equipment, alleged that everything he did with respect to Austria and the Sudeten Germans was in entire agreement with Halifax, (British Minister has telegraphed this to the Foreign Office) that in two years time Italy would no longer mean anything to Germany and that it was holy mission to unite 80,000,000 Germans into a nation which would rule Europe.

In contrast with Schmidt the Chancellor frankly resents German maneuvers as military demonstration against Austria. Also article in today's National Zeitung of Essen that reconstruction of Austrian cabinet is first step in Gleichschaltung.

French Minister believes immediate future unpredictable and hopes that there will be at least a temporary period of quiet. He remains, however, most pessimistic regarding the future of Austria and is apprehensive that present German success will encourage Hitler to

EXHIBIT 34

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undertake some new ventures adventure within a few months which may precipitate European war. He stated that today the British Government had made representations at Berlin and that tomorrow the French Government would do likewise. He feared, however, that these representations were of a harmless informative nature not likely to serve as an effective deterrent.

I have also seen the Italian Minister who assumes the attitude that nothing unusual is going on and that Austrian independence is not menaced. Mussolini sent message last night approving proposed cabinet reorganization.

A prominent Austrian banker who is exceptionally well informed described the situation as most favorable possible outcome for Austria. Austria was threatened with radical action by Germany which could not be resisted. Present compromise would prove far less successful for German aims than Hitler expected. Seyss-Inquart was fundamentally weak and vacillating and would be out-manuevered by Schuschnigg and Skubl the Secretary of State for Public Security. He was sure that Austria had gained six months during which time international situation might change in some way favorable to Austria.

Indirectly but reliably informed of views of their present Left Wing Leader. He does not expect immediate trouble from Austrian Nazis and believes that Austria will have some months of relative quiet during which Seyss-Inquart will be in constant and ineffective conflict with Skubl. There will be frequent threats of resignation from Seyss-Inquart and in due course another crisis in relations with Germany.

General consensus is that Schuschnigg deserves sympathy and admiration for the manner in which he came out of Berchtesgaden ordeal. It is felt that he yielded minimum and rendered great service to Austria and peace of Europe.

Pending Hitler's speech of February 20 and clarification of attitude of Austrian Nazis it is impossible to make any forecast.

WILEY

EXHIBIT 35

Rome, 77, March 29, noon

*My 69, March 20, noon.

"The Embassy learns that in the course of the conversations between Ciano and the British Ambassador on March 26 the British requested assurances that at the end of the war all Italian volunteers should leave Spanish territory and that all Italian war material would be withdrawn. These assurances were given the following day but the Italian Government has reserved the right to sell or to give certain quantities of war materials to the Franco Government when they are no longer needed by the Italian forces in Spain.

"The Ambassador also requested that some official Italian recognition be given to those passages in Chamberlain's recent speech which referred to the satisfactory progress of the negotiations with Italy. This was likewise agreed and the Informazione Diplomatica communique quoted in the Embassy's telegram No. 76, March 28, 6 p.m., was issued. The British Ambassador adds, however, that he had no prior knowledge of last paragraphs containing the warning against French intervention.

"Assurances were also given by the Italian Government that it would start almost immediately to withdraw troops from Libya at the rate of a thousand a week until the normal peace strength or about one-half the present garrison has been reached.

"Several other minor points to be clarified but it is believed that only outstanding major question to be resolved relates to the form and publicity of the agreement. It has been agreed that it will take the form of a general protocol with separate instruments covering the various points included in the conversations to enter into force at a date to be set by the two governments. This would permit the British to determine what progress had been made in Spain and the Italians to await recognition by ~~Britain~~ Great Britain. The Italian Government is, however, anxious to make public the terms before Hitler's visit and is insisting upon some form of public pledge on the part of Great Britain with respect to the recognition of the Empire.

"It is not yet known whether the British Government will be willing to make such a public pledge before the League Council meeting.

"It has, however, been proposed that there be a public exchange of letters between the British Ambassador and the Italian Foreign Minister setting forth the understanding on the part of the British Government to go to Geneva with a view to ultimate recognition of the Empire and the reaffirmation of Italian commitments with respect to Spain. The Ambassador is seeking instructions on this point and believes that the negotiations may be speedily concluded if his Government is willing to accept the proposal."

PHILLIPS

EXHIBIT 36

February 18, 1939.

German domination of Central Europe
and Czechoslovak trade agreement.

Mr. Vladimir Hurban, Czechoslovak Minister,
The Secretary,
Mr. Sayre.

Mr Hurban called on the Secretary by appointment in order to deliver to him a message just received from his Government. Mr. Hurban began by saying that the situation in Czechoslovakia is grave, - "very, very difficult". He went on to say that Germany is threatening to dominate Central Europe economically as well as in other ways. He said that his Government believed that the German Government intends the complete domination of Central Europe and that German activities seem to point to a plan of forming extensive clearing agreements with all the European countries of Central Europe except Austria and Czechoslovakia. Within the limits of such an extensive clearing agreement would be Hungary, Yugoslavia, Bulgaria, Rumania, Greece, and other countries similarly situated. The economic effect of such a union would be extensive bartering without money passing on the basis presumably of the German mark. In the words of the Czechoslovak Minister, it would be equivalent to a large monetary union. He said that Austria and Czechoslovakia would be left out of this because of German plans to dominate these two countries through political means. From the entire group trade from the other countries would be virtually excluded. In other words, the plan was German domination of Central Europe, with a closed door to the trade of every other country. The Czechoslovak Minister said that his Government had brought this matter to the attention of the British and French Governments within the last day or two and that he was now instructed to bring it to the attention of the United States Government.

In view of this development, the Czechoslovak Minister said that he hoped we would not be rigid in insisting upon the language in our trade agreement covering the Danubian preferences, for he said that some kind of a Danubian alliance seemed to be the only way successfully to prevent the achievement of such a German plan as he outlined.

F.B.S.

EXHIBIT 37

Berlin
Dated February 17, 1938
Rec'd 2:25 p.m.

Secretary of State,
Washington

60, February 17, 6 p.m.

This evening's press announces that the new Austrian Minister of the Interior Seyss-Inquart arrived in Berlin this morning "for a short visit" and was received by Hitler. It is learned that he also saw Ribbentrop and it is reported that the necessity was impressed upon him in both of these conversations of cleaning up in Austria that was described as "Communist elements". It may be further noteworthy that he spent some time at the offices of the secret police.

The circumstance of a newly appointed member of the Austrian cabinet who is known to be pro-German being thus in effect "summoned" to Berlin is construed here as sharply indicative of the nature of the new relationship between Germany and Austria.

GILBERT

EXHIBIT 38

Warsaw. No. 38, March 29, 4 p.m.

"One. I learn following in strictest confidence from Beck and his associates:

"(A) Beck gained distinct impression in conversations with Mussolini and Ciano during Beck's recent Rome visit that they both shared Beck's view in respect to Danubian Valley: whereas Italy focused its attention on the Mediterranean and Poland on the Baltic neither would like to see the hegemony of any country develop further in the Danubian Valley.

"(B) Of pertinent interest moreover during adjournment of Anglo-Italian conversations Mussolini had recently pointed out Italy was fundamentally interested in ascertaining the extent to which Britain would be interested in doing something to bring about economic and other appeasement in that area which had been disturbed by recent events (such as Austria). My informants added that in other words Mussolini's soundings on this score indicated Mussolini's interest in embarking on a potential counter policy vis a vis Germany's suspected aspirations in Danubian Valley; the counter policy envisaging economic assistance to rescue the Danubian and Balkan states from being swept into the German camp.

"Two. My informants added their opinion that Britain would probably be inclined to leave treatment of this problem in abeyance until current obstacles still retarding an Anglo-Italian solution of the problem in Spain will have been eliminated."

BIDDLE

EXHIBIT 30

Europe

Jan. 8. Bullitt cabled from Paris that Leger, in charge of the Foreign Office in Delbos' absence, had told him that the French Government was very apprehensive lest the United States become involved with Japan. Leger said that alone Britain would do nothing in the Far East, no matter how insulted. But if the United States should go to war with Japan, Britain would join in and this would leave France alone in Europe. Leger said that in such an eventuality Germany and Italy would strike at once and France would be no match for them.

Jan. 12. Bullitt cabled that Prunas, new Italian charge in Paris, had told him that Germany and Italy had reached complete agreement as to Austria and that Italy did not object to Germany's taking over Austria. Bullitt asked whether in that event the 300,000 Tyroleans might not become a danger to Italy. Prunas replied that it was ~~an~~ already agreed that the Tyroleans would emigrate to Germany. Germany had expressed a desire for farm laborers and some 25,000 had already been sent. When this was completed Italy would be safe at the Brenner.

Jan. 12. Bullitt cabled that Delbos had told him that Poncet reported from Berlin that the Germans would agree to a limitation of production of military planes and that in general prospects for a French-German rapprochement were encouraging. Delbos said in addition that he believed there was complete understanding between Germany and Italy as to Austria.

7/5-9

EXHIBIT 40

Europe

England

Jan. 24. Johnson, W.S. Charge at London, cabled that the U.S. Military Attache informed him that a representative of the British Air Ministry had intimated that day that his authorities would probably request through the British Ambassador in Washington permission to purchase certain American aircraft. The first item will be not less than 12 Boeing B-17 models for delivery within 12 weeks.

The Air Ministry hopes special consideration will be given by the appropriate American authorities for release for sale of these Boeing machines and other aircraft to be specified later.

Spain

Jan. 21. Bay, U.S. Consul in Seville cabled:

"Political optimism described in my Dec. 7 has been rudely shaken by events of Teruel. Moral effect of the loss of that city far outweighs military significance but ultimate liquidation of the affair is expected by operation now developing. Information received from widely separated sources indicates General Franco was on the point of launching a drive on Guadalajara to take off from Jadraque with intention of completing encirclement of Madrid when attacked at Teruel. These circumstances are generally regarded as merely delaying final victory against Franco. Information from German sources is to the effect that a number of civilians were recently executed in this connection at Caceres. Method of granting leave to members military forces has been revised and restricted. Masters and crews of foreign merchantmen are not permitted to go ashore in Seville except on being made for ships of nations having relations with General Franco.

Foodstuffs, especially meats, scarcer than last year and prices substantially higher. Hotels and restaurants still continue to serve articles not available in local markets. Retail stocks practically exhausted."

EXHIBIT 41

Austria, Germany

Feb. 16. Wiley, U.S. charge at Vienna, cabled the cabinet changes approved by Miklas the preceding night, adding that he was informed through official sources that the German Government had demanded action on its requests by midnight and had staged an impressive military demonstration along the frontier.

Feb. 14. Gilbert, U.S. charge at Berlin, cabled that Hemmen, former German counsellor of Embassy at Buenos Aires and the negotiator of the Canadian-German commercial agreement of 1935 and the German-French agreement of 1937 and now in the economic section of the Foreign Office, was being sent to the United States. He would travel around securing economic information and would be available after the signature of the U.S. - British trade agreement to discuss possibilities of negotiating a trade agreement between Germany and the United States.

Feb. 17. Phillips cabled from Rome that Ciano said that while the inclusion of Seyss-Inquart in the cabinet meant "a pronounced increase of German influence in Austria he nevertheless felt that it was far better to have cooperation between the two governments since any increase of Austrian opposition or hostility to Germany might of itself be an invitation to Hitler to take some drastic step. Ciano also told me that there would be very much closer cooperation between the German and Austrian armies and that during the next year there would be an exchange of high ranking officers between the two armies."

Feb. 18. Gilbert, U.S. charge at Berlin:

"The Military Attache reports that as a result of numerous conversations and discussions with army sources he is convinced that the agreement reached with Austria as a result of the Hitler-Schuschnigg conversations contains military clauses providing for the gradual assimilation" of the Austrian army into the German.

"Presumably this military agreement covers: (one) unification of tactical doctrine through adoption of similar text books, (two) Austrian adoption of German military organization, ~~xxxxxx~~ (three) gradual introduction of uniform weapons, (four) coordination of war plans.

"The Military Attache believes that within the relatively near future there will be evidence of a military alliance through the appointment of standing military missions by each country to the other country.

"As a corollary of the foregoing it is believed here that further changes in the Austrian Government will be announced shortly which will include the appointment of a "pro-German" Chief of Staff of the Austrian army."

EXHIBIT 42

6-11

March 26, Lane, U.S. Minister at Belgrade, cabled:

"Minister of War restated to me yesterday that construction of Yugoslav fortifications on German frontier which was initiated prior to anschluss is proceeding. Yugoslav Government now evincing active interest in coming to agreement with Standard Vacuum Oil Co. respecting duty on crude oil due to military necessity of gasoline reserves. General Maric discounted importance of recent incidents in northern part of the country attributing them to local political rather than to international causes.

"Assistant Minister for Foreign Affairs said to me this morning that general European situation appears calmer; that Hitler will not attack Czechoslovakia realizing that such action would lead to general coalition against Germany, and that war will probably be averted for 2 years at least."

EXHIBIT 43

(Germany)

March 26. Ravndal, U.S. consul at Buenos Aires cabled:

"According to best possible source, Germany is secretly purchasing large stocks of cereals and linseed in Argentina, presumably for excessive fees. Shipments since January 15, 1938, have been of unusual volume and local shippers are strictly prohibited from divulging any information regarding them."

EXHIBIT 44

March 28. Phillips, U.S. Ambassador at Rome, quoted the communique in the *Informazione Diplomatica* on Chamberlain's speech. In referring to the communique's warning against French intervention in Spain, Phillips said:

"There is every evidence that the Italian Government is seriously preoccupied over the possibility that France may intervene actively in behalf of the Spanish Government forces. One such indication is the effort to speed up negotiations with Great Britain, two conversations between Ciano and Berth having taken place over the weekend."

EXHIBIT 45

March 29.

Carr, U.S. Minister at Prague, cabled a summary of the Prime Minister's speech of the 28th. After noting the reference in the speech to future minority measures, Carr said "no mention made of new measures though they are probable since in addition to Chamberlain's suggestion we know that British and German ministers think further measures and improved administration essential."

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EXHIBIT 46

England

On March 25, Kennedy, U.S. Ambassador to London, cabled about the British desire to proceed without delay with discussions under paragraph 3 of Article 25. The cable added:

"Captain Wilson in conversation with Admiralty officials was told that the British are anxious to fix a limit of about 42,000 tons which they believe will give a well balanced ship carrying nine 16 inch guns. They feel that the next higher logical limit would be about 47,000 tons, providing a balanced ship of twelve 16 inch guns."

On March 30 Hull replied by cable agreeing to proceed at once with the discussions under paragraph 3 of Article 25.

A typed despatch of February 26 from the Major American Minister to the Hague referred to his despatch No. 182, dated February 14, "wherein it was reported that a secret understanding has existed since 1934 between the Netherlands and ~~British~~ British air forces."

Germany

On March 30, Wilson, U.S. charge at Paris sent cable No. 497, 8 p.m., as follows:

"A German friend formerly in the diplomatic service who maintains relations with Von Neurath has just arrived here from Berlin. He tells me that the leaders of the party are urging Hitler to move quickly against Czechoslovakia in order to take advantage of the favorable situation created by French weakness and British unpreparedness. Their thought is that when the Czechoslovak proposal for dealing with minorities is known it should be treated as a sort of Berchtesgaden arrangement, denounced as unsatisfactory, disorders to take place in the Sudeten country with an appeal for the assistance of German troops.

"My informant said that Von Neurath and others were playing for time and counseling that no aggressive action be taken at least until after Hitler's visit to Rome."

Italy

April 1, Wilson, U.S. consul at Genoa, cabled:

"Have just heard from reliable confidential source that order issued last Tuesday placing fleet from La Spezia to French boundary under 6 hours sailing orders has now been cancelled."

EXHIBIT 47

February 7, 1938

No. 124

The Significance of the Establishment
of the
"Manchukuo Heavy Industries Development Company".

The information supplied the Department by Consul Richard F. Boyce in his report entitled "New Economic Organization in 'Manchukuo'", Yokohama, January 6, 1938, suggests an interpretation of the significance of the establishment in Manchuria of a new company to develop heavy industries which differs considerably from those popularly accepted. The facts in connection with the new company are as follows:

The Nippon Sangyo (Nihon Sangyo Kabushiki Kaisha) is a Japanese holding company capitalized at yen 225,000,000 headed by Giusuke Mikawa, which controls and manages a large network of industrial and commercial enterprises in Japan engaged in mining, ship building, shipping, fishing, the manufacture of iron, automobiles, chemicals and oils, marine products, matches, and electric power.

The South Manchuria Railway Company is a Japanese corporation owning and operating directly, or controlling through stock ownership the enterprises occupying a key position in the economic life of Manchuria.

A new "Manchukuo" corporation called the "Manchukuo Heavy Industries Development Company" has been created, with a capitalization of yen 450,000,000, which will acquire the assets of the Nippon Sangyo and at the same time acquire from the South Manchuria Railway Company control and management of many important mining and manufacturing enterprises (coal, iron, and gold mining, the iron and steel industry, light metal manufacture, automobile, aircraft, and other manufacturing industries). Half of the stock of the new company will be held by the present owners of Nippon Sangyo, and half by will be held by the "Manchukuo" government. Mr. Mikawa will assume management of the combined enterprises controlled by the new company.

The establishment of the new company has been generally portrayed as the opening up of Manchuria to private capital, with emphasis upon foreign capital, as the result of the failure of the South Manchuria Railway Company to develop the country sufficiently, and its inability to attract capital for further expansion schemes.

It may be said with a fair degree of certainty that the establishment of the new company does not imply any material change in the opportunities for private capital in Manchuria. Private Japanese capital has always been allowed to participate in the minority shares of most of the enterprises controlled by the South Manchuria Railway Company or the "Manchukuo" Government and foreign capital has been allowed in many. It is important to note that the Supervising Law governing the new company specifies that control of the new company, even as regards the details of business and financial management, shall rest with the "Manchukuo" Government (which also will own 50 percent of the stock of the new company). Most of the Manchurian enterprises slated to be controlled and managed by the new company are "Manchukuo" special companies already legally controlled by the State with the South Manchuria Railway Company owning controlling stock of all of them. These distinctions are nice but irrelevant since the Japanese Kwantung

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Army controls and is practically synonymous with the "Manchukuo" Government and the South Manchuria Railway Company. Control of the Manchurian enterprises involved, therefore, will remain centralized in the same hands. Private investors will be allowed to invest in the minority shares of the subsidiaries of the new company as they were allowed previously to invest in the minority shares of companies controlled by the South Manchuria Railway Company.

Not only does private capital make no gain as a result of the creation of the new company; on the contrary, the state of "Manchukuo" (or the Army) acquires control of Nippon Sangyo's large network of industrial enterprises in Japan. It will be possible under the new set-up to operate these in coordination with the Manchurian enterprises. It is difficult to evaluate the relative importance of this factor in the creation of the new company. It may have been the principal reason for the change or it may have been a secondary reason. It can scarcely have been an incidental fact, however, that the Army acquired as a result of the deal control of large industrial enterprises in Japan, particularly in view of the world-wide trend toward increased military influence in industry.

Is it likely that Mr. Sikkawa's modern and thus far very successful business methods and reputation will attract private capital more successfully than the South Manchuria Railway Company?

There is little doubt that Japanese investors are exhibiting an extreme lack of confidence in the South Manchuria Railway Company. In 1936 the Company launched grandiose expansion plans, sponsored by the military, calling for an investment of yen 436,000,000. In five years in strategic and other primarily military enterprises. According to a report received from the American Consul in Dairen, in March of 1937, it appeared that the Company was borrowing in order to pay its dividends; at the same time the Japanese Government refused to pay up capital stock previously subscribed. The South Manchuria Railway Company debentures were unsalable to the public and the newly adopted policy of selling to the public some of its shares in subsidiary companies had met with relatively little success.

The essence of the lack of confidence appears to lie in military domination of the business management of the South Manchuria Railway Company and the vast expansion of enterprises since 1931 along strategic and military rather than economic lines. The soundness of extensive heavy industries in Manchuria may be questioned at once upon economic grounds. It is highly doubtful, therefore, that the transfer to new management (control remaining the same) of the heavy industries requiring extension in Manchuria will attract private capital, either Japanese or foreign, in substantial quantities. Nevertheless the Nippon Sangyo and its subsidiaries in Japan probably possess reserves and borrowing power which may be milked for the benefit of the Manchurian enterprises. Furthermore, the creation of the new company, with half the stock taken by the Government of "Manchukuo" automatically pumps another yen 225,000,000 of public funds into Manchurian industry. It is true, these funds will be used by the new company to acquire from the South Manchuria Railway Company control of the Manchurian enterprises to be taken over by the new company and leave little capital for expansion but since the South Manchuria Railway Company and the new company are two pockets in the same military trousers this need not detain us. The South Manchuria Railway Company, after having been paid off (probably) in "Manchukuo" bonds, will possess

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as a result of the deal additional resources with which to expand in Manchuria or in North China. (According to recent press reports the South Manchuria Railway Company has definitely been allotted the task of developing the railways, roads (roads?), harbors and mines of North China.) It may be that this was one of the more important considerations of the deal.

Why should Mr. Aikawa be willing to merge his interests, and those of his co-investors in Nippon Sangyo, with those of the somewhat more dubious economic enterprises of the South Manchuria Railway Company? The character and background of Mr. Aikawa fit admirably into the new picture. He is the son-in-law of Mr. Kuhara, President of the Japan Iron Foundries and a former Cabinet Minister. Mr. Kuhara has been associated with Mr. Aikawa in many of his most important enterprises and has supplied much of his capital. Moreover, he is closely associated with the more reactionary element in the Japanese Army and was recently sentenced to prison for his connection with the attempted army coup of February 26, 1936. Messrs. Aikawa and Kuhara have been favored by substantial Army support for the last few years and several of the more important industries controlled by Nippon Sangyo depend largely upon military orders. There certainly appears to be a sufficient amount of affinity and interdependence involved to explain Mr. Aikawa's action in the matter.

Mr. Aikawa now seeks to obtain American capital to aid in the expansion schemes of this large holding company controlled legally by the "Manchukuo" Government and in fact by the Japanese Kwantung Army and conducting enterprises both in Manchuria and Japan. It is reported that Mr. Aikawa will come shortly to the United States for the purpose of eliciting aid in the form of credits for machinery, equipment and materials, for which he will exchange minority interest shares in the subsidiary companies of the Manchuria Heavy Industries Development Company (in no case will foreigners be allowed majority interest or management privileges in any subsidiary).

Consul Boyce believes that Americans who may be approached by Mr. Aikawa should keep in mind the uneconomic nature of many of the enterprises controlled by the Company, the Army control, the almost inevitable financial difficulties of Japan in the next few years, the possibility of war with Russia, and other considerations which he lists.

M.M.H.

FE: Jones: SMJ

EXHIBIT 50

American Consulate
Yokohama, Japan, January 6, 1938.

Subject: ENCLOSING A REPORT ON THE
NEW ECONOMIC ORGANIZATION
IN "MANCHUKUO"

The Honorable
The Secretary of State
Washington

Sir:

I have the honor to enclose herewith a report dated January 6, 1938, entitled New Economic Organization in "Manchukuo". This report describes the change in the directing force of the economic development of "Manchukuo" from the South Manchuria Railway to a new company, the Manchukuo Heavy Industry Development Company, which will be a holding company jointly owned by the "Manchukuo" Government and the Japan Industries Company (Nihon Sangyo Kabushiki Kaisha).

Mr. Yoskizuke Mikawa, the promoter of the venture described in the report, is expected to leave Japan for the United States in a few days. He will no doubt present his plan for investment with American capital in "Manchukuo" to possible American investors as soon as he can arrange to meet them.

Respectfully yours,
Richard F. Boyce,
American Consul

EXHIBIT 51

VOLUNTARY REPORTNEW ECONOMIC ORGANIZATIONOF"MANCHUKOO"

From: Consul Richard F. Boyce
American Consulate,
Yokohama, Japan.

Date of completion: January 6, 1938
Date of mailing: January 7, 1938

Note: The enclosure "Japan's Capital Resources" was prepared by Vice Consul Ivan B. White.

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I

NEED FOR NEW POLICY
IN
ECONOMIC DEVELOPMENT OF "MANCHUKUO"

"Manchukuo's" economic organization is principally agricultural - 90% of the population is engaged in agriculture and 80% of the national income is derived from it.

The great importance of trade relations between Japan, "Manchukuo," and China will be understood when one considers the poor natural wealth of Japan and the existence of abundant resources and wide consumption markets in "Manchukuo" and China. (Mitsubishi - "Japan Trade and Industry," page 623.)

The purpose of Japanese economic expansion into "Manchukuo" is said to be "to bring the two countries into a common economic unit, to avoid destructive competition, and to utilize as fully as possible the natural resources of the two countries." (Japan-Manchukuo Year Book 1937, page 840.)

"The South Manchuria Railway Company has been the bulwark of Japanese political and economic interests in Manchuria for the past three decades." Since 1932 the company has had supervisory control either directly or indirectly through subsidiaries over many activities, including railways, workshops, steamships, harbors, coal mines, shale oil plants, iron and steel works, chemical fertilizer plants, electricity, gas, hotels, public works, such as schools, hospitals, etc.; slaughter houses, cement, paraffin refinings, ceramics, industrial fats and oils, lumber, storage, express service, gold and lead mining, real estate, insurance, newspapers, etc., etc.

The vast undertakings of the South Manchuria Railway Company, which is controlled by the Japanese Government, have not been developed, or have not developed "Manchukuo," to the extent desired. The theory upon which the South Manchuria Railway Company worked is said to have been evolved by the Japanese military authorities in "Manchukuo" and was based on the idea that the established capitalists of Japan, such as Mitsubishi, etc., should be kept out of "Manchukuo"; that the Government should run the entire project through the South Manchuria Railway Company and any profits would accrue to the Government.

Without giving specific data to show how far short of the original expectations the South Manchuria Railway Company development progressed, it is now announced that a change must be made and that capitalists will be given a chance to see what they can do.

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II

OUTLINE OF NEW PLAN

(Supplied by
Nihon Sangyo Kabushiki Kaisha)

"MANCHOUKUO HEAVY INDUSTRIES CO., LTD.

"The urgent necessity of expediting the development of industry in Manchoukuo, more especially the heavy industries, leaves no room for discussion. To bring about this development and to take advantage of the forthcoming abolition of extra-territoriality rights which will result in the transfer of administrative power now exercised by the South Manchurian Railway in the railway zone, our Company has come to an agreement whereby it will become a Manchoukuo corporation and will move its head office to Hsinking.

"This new Manchoukuo corporation shall then merge with a powerful national policy corporation planned by the Manchoukuo Government for the purpose of developing industries there on an integrated management principle, with the center in the heavy industries field. In addition to managing the existing enterprises of our present Company, the new company resulting from the merger will undertake the important mission of controlling and managing the iron and steel industry, light metal manufacturing, automobile, aircraft and other manufacturing industries in Manchoukuo, also coal, gold and other mining industries.

"The new national policy corporation shall have a capital of Yen 450,000,000.00 consisting of Yen 225,000,000.00 to be invested by the Manchoukuo Government, and the present capital of Yen 225,000,000 of our Company. The new corporation shall enjoy the positive support of both the Japanese and Manchukuo Governments with respect to the active utilization of the assets to be taken over from our Company and of raising the necessary funds and making available other facilities that may be necessary.

"The following is a general outline of definite terms agreed upon with a view to respecting the interests of the existing shareholders of our Company and to provide for the investment of private capital in Manchoukuo:

"1. At the disposal of profit for each period, the dividends will be determined as follows:

- (a) When the dividend rate for private shareholders is 10% or under, the dividend for the shares held by Manchoukuo shall be one-half thereof. For example, if the private shareholders receive a 10% dividend, Manchoukuo shall receive a 5% dividend.
- (b) Any profit in excess of a dividend of 10% for private shareholders and 5% for Manchoukuo shall be divided equally. For example, if private shareholders receive a 12% dividend, Manchoukuo shall receive a 7% dividend.

"2. In the event of liquidation of the corporation, the residue shall be divided between the private shareholders and the Government shares at the ratio of two to one up to one and one half of the paid-in capital. Any excess over one and one-half shall be divided equally.

Note: The new holding company will be called "Manchoukuo Heavy Industry Development Company."

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- "3. The Manchoukuo Government shall guarantee the principle and a net return of 6% per annum on all funds expended by the corporation in connection with carrying on enterprises in Manchoukuo for ten years. In the event the corporation does not earn 6% per annum and it is necessary for the Manchoukuo Government to make up a deficit up to 6%, the Government shall be reimbursed in subsequent periods out of any earnings in excess of 6% until such time as the advance to cover the guaranteed dividend has been repaid.
- "4. There shall be no Manchoukuo tax on profit made by the corporation from investments outside Manchoukuo. Also dividends, paid by the corporation to shareholders residing outside of Manchoukuo shall not be taxed. As to taxation in respect to enterprises in Manchoukuo, the Manchoukuo Government shall take suitable steps so as not to impair the functions of integrated management of the corporation in the event a change in the taxation system would, in the future, cause an additional burden to the corporation.
- "5. The corporation shall not be restricted as to the dividend rate in the disposal of profits.
- "6. In regard to the marketability of the private shares of the corporation, the Japanese and the Manchoukuo Governments shall take suitable measures so that the existing negotiability shall not be impaired.
- "7. No restrictions will be placed on export of dividends."

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The following table is said to be the list of companies which will come under the management of the new concern. (Japan-Manchoukuo Year Book 1938, page 948.)

Companies	Capital (Yen 1,000)	
	Authorized	Paid-up
Showa Steel Works	100,000	82,000
Manchou Colliery	16,000	16,000
Manchuria Mining Development	5,000	3,100
South Manchuria Mining	3,600	1,350
Shantung Mining	5,000	2,250
Fuchow Mining	1,000	750
Kaiping Mining	34,320	33,620
Manchuria Lead Mining	4,000	4,000
Manchuria Gold Mining	12,000	7,175
Great Manchuria Gold Mining	200	50
South Manchuria Light Metal	25,000	8,250
Japan-Manchoukuo Magnesium	7,000	3,500
Dowa Automobile	6,200	3,200
Total	219,320	163,245

The Manchoukuo Government is furthermore expected to entrust the larger part of the work appertaining to the so-called "Manchoukuo 5 Year Industrial Plan, which is scheduled to be undertaken with a budget of 3,000 million yen, to the new company.

Controlling Legislation

The law passed by the "Manchoukuo" Government to provide for the new regime is summarized as follows: (Japan advertiser, December 30, 1937.)

"HSINKING, December 20. -- The Manchukuo Government promulgated today the supervising Law of the Manchuria Heavy Industry Development Company, effective December 27.

"Under the supervision of the Manchukuo Government, the new company will undertake to develop the heavy industries of Manchukuo and at the same time promote the economic ties between the new State and Japan.

"The law consists of 31 articles, the salient feature of which is that the Government will give high protection to the company's interests and rights, while the State's control will be considerably enhanced.

"Scope Outlined

"Gist of the law follows:

"1. The Manchukuo Heavy Industry Development Company will invest in steel manufacturing, light metal industries, mining, motorcar and aircraft manufacturing and coal mining, and will manage these branches of industry. It also will be empowered to invest in gold, zinc, lead and copper mining.

"2. The company will be required to establish its main office in Hsinking.

"3. The company's board of directors will be composed of a president, two vice-presidents, five or more directors and three or more inspectors. The president and vice-presidents will remain in office five years. They will be appointed by the Hsinking Government, while the directors and inspectors will be elected.

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"4. The company will be capitalized at Yen 250,000,000. When necessary the company may obtain permission from the State Minister concerned to increase its capitalization.

"5. State control will be increased along the following lines:

"a. The right to appoint and fix the salaries and allowances for the president and vice-presidents will be vested in the Manchoukuo Government.

"b. The company is under obligation to submit to the Hsinking Government a detailed report on the business program for each fiscal year.

"c. Election of directors and inspectors, their dismissal, modification of the articles of association, disposal of profits, flotation of bonds and other important matters are to be carried out under special permission of the State Minister concerned.

"d. The State Minister concerned is empowered to issue any order considered necessary in connection with the business management of the company in case such is deemed necessary with regard to its supervision and control."

Officers of Company

The officers of the new company will be:

Chairman and President	Yohisuke Aikawa
Directors	K. Shimokobe
	T. Shimamoto
	E. Tanaka
	K. Yamada
	Baron S. Ito
	K. Tamura
	O. Asahara
	N. Odaira
	S. Ibuki
Auditors	C. Iwata
	Y. Katayama
	K. Yamada

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Companies Controlled by Japan Industries Ltd.

(Nihon Sangyo K.K.)

as of March 30, 1937

Japan Industries established in 1912	
Capital Stock Subscribed	Yen 225,000,000.00
Amount Paid In	198,375,000.00
Old Shares - Yen 50.00 each fully paid	2,370,000 shares
New Shares - Yen 37.50 paid in	2,130,000 shares
Total number of Shareholders	50,200
Chairman O Yoshisuke Aikawa	

I. Mining Industries

A. Nippon Mining Company (Controlling Interest Held by Japan Industries - 58%)

Established 1929

Capital Stock Subscribed	Yen 160,000,000.00
Amount Paid In	138,750,000.00
Old Shares - Yen 50.00 each fully paid	1,500,000 shares
New Shares - Yen 37.50 paid in	1,700,000 shares
Number of Shareholders	6,630
Number of Employees	30,000

Nippon Mining Company owns The Taiwan Mining Co., Nissan Steamship Co., and the Michinan Mining Co.

II. Heavy Industries

A. Hitachi Engineering Works (Controlling Interest Held by Japan Industries - 35%)

Established 1920

Capital Stock Subscribed	Yen 117,900,000.00
Amount Paid In	73,685,000.00
Old Shares - Yen 50.00 each fully paid	1,179,000 shares
New Shares - Yen 12.50 paid in	1,179,000 shares
Number of Shareholders	7,580
Number of Employees	30,000

Hitachi Engineering Works owns the Osaka Iron Works & Shipbuilding Companies with capital stock of Yen 12,000,000.00 fully paid; and 8 other subsidiaries including iron foundry industry, precision instrument manufacturing, etc.

B. Hitachi Electric Power Company (Controlling Interest Held by Japan Industries - 45%)

Established 1927

Capital Stock Subscribed	Yen 10,000,000.00
Amount Paid In	6,250,000.00
Old Shares O Yen 50.00 fully paid	100,000 shares
New Shares - Yen 12.50 paid in	100,000 shares
Number of Shareholders	261
Number of Employees	150

III. Automotive Manufacturing Industries

a. see next page

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III. Automotive Manufacturing Industries

A. Nissan Automotive Manufacturing Company (Controlling Interest Held by J. I. - 100%)
 Established 1933
 Capital Stock Subscribed Yen 10,000,000
 Amount Paid In 10,000,000
 Nissan Automotive Manufacturing Co. owns the Nissan Automotive Sales Co. with capitalization of Yen 5,000,000.

IV. Chemical Industries

A. Japan Chemical Company - (Controlling Interest Held by Japan Industries - 100%)

Established 1934

Capital Stock Subscribed Yen 62,000,000
 Amount Paid In 53,900,000
 Old Shares - Yen 50.00 fully paid 430,000 shares
 New Shares - Yen 40.00 paid in 810,000 shares
 Number of Employees 20,000
 Japan Chemical Co. owns 12 chemical manufacturing companies.

B. Japan Oil Company - (Controlling Interest Held by Japan Industries - 60%)

Established 1921

Capital Stock Subscribed Yen 17,500,000
 Amount Paid In 17,500,000
 Number of Shareholders ... 2,367
 Number of Employees 2,000
 Japan Oil Co. owns 40 manufacturing companies in soybean, fish oil industries, etc.

V. Fishing Industries

A. Japan Fishing Industries, Ltd. (Controlling Interest Held by Japan Industries - 46%)

Established 1925

Capital Stock Subscribed Yen 91,500,000
 Amount Paid In 55,500,000
 Old Shares - Yen 50.00 fully paid 840,000 shares
 New Shares - Yen 12.50 paid in 960,000 shares
 Number of Shareholders 33,450
 Number of Employees 5,000
 Japan Fishing Industries owns 56 subsidiaries.

B. South American Fishing Industries, Ltd. (Controlling Interest Held by Japan Industries - 100%)

Established 1932

Capital Stock Subscribed Yen 1,000,000

C. Japan Fishing Industries Research Institute (Controlling Interest Held by Japan Industry - 100%)

Established 1935

Capital Stock Subscribed Yen 1,000,000

VI. Electric and Musical Industries

A. Nipponophone Co., Ltd. (Columbia) - (Controlling Interest Held by Japan Industries - 59%)

Established 1910
 Capital Stock Subscribed and fully paid .. Yen 7,000,000
 Number of Employees ... 1,700

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VI

B. Victor Talking Machine Co. of Japan, Ltd. (Controlling Interest Held by Japan Industries - 68%)

Established 1927

Capital Stock Subscribed and fully paid Yen 7,500,000

Number of Employees ... 1,000

VII. Plantation Industries

A. Japan Industries Rubber Estate Co. (Controlling Interest Held by Japan Industries - 64%)

Established 1934

Capital Stock Subscribed and fully paid Yen 6,000,000

Number of Shareholders ... 1,183

Number of Employees 3,100

VIII. Other Industries and Businesses

A. Daido Match Company - (Controlling Interest Held by Japan Industries -- 91%)

Established 1927

Capital Stock Subscribed and fully paid Yen 4,000,000

Number of Employees 4,000

Daido Match Co. owns 7 subsidiaries

B. Godo Real Estate Company - (Controlling Interest Held by Japan Industries - 100%)

Established 1915

Capital Stock Subscribed Yen 5,000,000

Amount Paid In 2,500,000

C. Sakhalin Steamship Company (Controlling Interest Held by Japan Industries - 80%)

Established 1918

Capital Stock Subscribed Yen 3,000,000

D. ChuD Civil Engineering Company (Controlling Interest Held by Japan Industries - 100%)

Established 1930

Capital Stock Subscribed Yen 1,000,000

E. Imperial Lumber Company (Controlling Interest Held by Japan Industries - 100%)

Established 1933

Capital Stock Subscribed Yen 250,000

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IV

ANALYSIS OF ECONOMIC FACTORS INVOLVED

The announced intention of the Nihon Sangyo Kabushiki Kaisha is to invite foreign capital to participate in the development of "Manchukuo". Mr. Aikawa is said to be planning to visit the United States very shortly to obtain American capital. He will probably be accompanied by Mr. James W. Murray. Mr. Murray is an American citizen who came to Japan several years ago as Treasurer of the Nipponophone Company (Columbia Phonograph Company) in Kawasaki. When the company was purchased by the Nihon Sangyo Kabushiki Kaisha in 1935, Mr. Murray was retained by the new owners and has since been acting in an advisory capacity to the Company on financial matters particularly in its dealing with American companies in the United States. Mr. Murray will therefore assist Mr. Aikawa in completing any financial arrangements which Mr. Aikawa decides upon but will not engage in any of the promoting activities of Mr. Aikawa.

Mr. Aikawa needs money or credit totalling several million dollars. He wants it in the form of machine tools, factory equipment, foundry and steel mill equipment, mining equipment, automotive equipment, and materials. He wants also the latest engineering advice and the assistance of American engineers to design the plants, purchase and install the equipment and get the new industries in running order.

He will pay well for what he buys but he wants all this on credit for at least three years and preferably for ten years. His proposition is to exchange shares or debentures of the subsidiary companies for the materials, equipment and engineering advice received. He does not want to issue debentures or make loans which mature in less than ten years.

He will propose that all American dollar investments will be represented by shares or debentures in yen; that such yen values will be revalued whenever they are re-purchased by the company so that the American investor will get the same dollar refund, regardless of any possible yen depreciation, as his original dollar investment.

The guarantee of such an arrangement will be made by the "Manchoukuo" Government in the form of laws or regulations but not by treaties.

No American or other foreign investment will be permitted to own a controlling interest in any of the subsidiaries, and none of the foreign investment will be permitted in shares of the parent company.

Americans who may be approached by Mr. Aikawa should consider the matter very carefully before committing themselves. The following facts are given as bearing upon any plans he may suggest:

1. The purpose of Mr. Aikawa's invitation to American capitalists is to obtain funds or credit which are not readily available in Japan to carry out his plans in "Manchoukuo." A statement regarding Japan's capital resources, prepared by Vice Consul Ivan B. White, is enclosed herewith. The profit accruing to American investors is only incidental to his venture. He would not seek American capital if he could get sufficient capital in Japan.

2. The success of the venture in "Manchoukuo" depends upon (a) the economic possibilities of "Manchoukuo," (b) the economic situation in Japan itself, (c) the success of Japan in China,

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(d) the political support of the Japanese Army, (e) the continuation of heavy expenditures in Japan and "Manchoukuo" for munitions and other war purposes and (f) Mr. Mikawa's ability.

3. There is a great difference of opinion as to what the economic possibilities of "Manchoukuo" are. It is an agricultural country and the Japanese Government wishes to keep the market there for Japan's own industries and does not wish to establish industries that will compete with its own factories. It seems inconsistent, therefore, to establish a new automotive industry and a new aircraft industry, as announced by the Company, unless it is being done purely for reasons of military defence against Russia. The present annual ~~sales~~ automotive market in "Manchoukuo" is only 2500 units. The annual consumption of aircraft for civil purposes is very little. The principal industrial possibilities, from an economic point of view, appear to be the production of iron and coal as a source of supply to Japanese industries and for national defence.

This office is not supplied with sufficient data to report upon the economic possibilities of "Manchoukuo". This data should be available in the Consulates in "Manchoukuo." There is doubt, however, as to whether the proposed development is more for economic reasons than for military defense.

4. As the "Manchoukuo" Government, which is a 50% owner of the new company and which guarantees the profits and other benefits to American investors, is the instrument of the Japanese Government, the success or failure of the new company will depend largely upon the success or failure of present economic developments in Japan. Practically every American or English economist or business man with intimate knowledge of the country agrees in predicting serious economic trouble for the country within the next three years, whether Japan's military activities in China succeed or fail. As economic conditions in Japan become worse, Japan's ability to support "Manchoukuo" decreases and any guarantees as to profits, to exemption of profits from taxation, to permission to export profits and dividends become affected. The much advertised "Japan-Manchoukuo bloc" is only as good as Japan can make it.

5. Japan's success in China depends upon many unknown and unpredictable factors. The present military activity is costing Japan a great amount of money and the desired economic expansion there will cost a great deal more. The Japanese business men are not believed to be too optimistic, but in any case it is admitted that failure of their economic expansion in China would be ruinous to Japan after the great sacrifices they are now making.

6. The Japanese admit that the prosperity of the heavy industries of the country since 1932 is largely due to military expenditures. This can easily be proved, and no attempt has been made to deny it. It is admitted that such expenditures cannot be supported indefinitely. It follows that when the expenditures stop either by reason of exhaustion or otherwise, the heavy industries will suffer a depression. As the activities of the new company in "Manchoukuo" will be largely in heavy industries and as some of the leading activities of the Nihon Sangyo Kabushiki Kaisha in Japan proper, which are now taken over by the new company, are heavy industries, it is hard to see how the Manchoukuo Heavy Industry Development Company can fail to suffer when it loses the support of the war expenditures.

7. As the Japanese Army officials are so powerful politically and as their policies are subject to change without consideration of other interests, it is always possible for them to abandon

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Mr. Aikawa and his company just as abruptly as they dropped Mr. Matsuoaka and the South Manchuria Railway.

8. The success of the venture also depends largely upon Mr. Aikawa's ability to manage the huge interests he has undertaken. Although he has been successful to date, his success has admittedly been due in large measure to conditions over which he has no control. It is one thing to expand successfully in boom times. It remains to be seen how he can do in a depression. Some, but not all, of his ventures have succeeded. Certainly his automotive ventures are not a success and without Army support would have been abandoned.

9. The American investor can buy Japanese Government bonds in New York, payable in U.S. dollars, at such a discount that they yield him 10%. The investment in the new company has only a 6% guaranteed yield. The possibility of getting more than 6% is purely speculative.

10. The American investor cannot buy any shares of the Manchoukou Heavy Industry Development Company but only of the subsidiary companies. The parent company could declare a substantial profit from sources not available to the American investor and the subsidiary might only declare a 6% dividend.

11. The American investor cannot control more than 49% of the stock of any subsidiary. If the subsidiary, for example, made automobiles, the American investor could not keep the company from exporting to markets in competition with his American plant. He could not be a decisive factor in any of the acts the directors decided upon. He could be "frozen out" at any time.

12. The economic set up in "Manchoukou" is still a monopoly, the only change being from the South Manchuria Railway to the Manchoukou Heavy Industry Development Company. If the activities of any subsidiary in which an American might invest should run counter to the purpose of the controlling interests of the parent company, they would be curtailed even though it adversely affected the subsidiary.

13. As Japan has announced upon a number of occasions that the terms of treaties should not be binding upon her when the conditions existing at the time the treaties were made have changed, it is hard to believe that less formal guarantees, as represented by the laws of "Manchoukou" would be considered as binding her if economic conditions in Japan became so unfavorable as to make it difficult to carry them out. Up to now the Japanese Government has never defaulted on its bonds. It would not do so unless the economic situation became hopeless. The situation is becoming more and more serious, however, and it is too soon to say that Japan will never default. American experience in Germany, Italy, Russia, Spain and other countries and the experience of the foreign oil companies in "Manchoukou" should be considered in predicting possibilities of American participation in the new venture.

EXHIBIT 66

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EG

GRAY

Tsingtao via N. R.

Dated January 13, 1938

Rec'd 10:30 a.m., Jan. 14th

AMEMBASSY PEIPING
AMEMBASSY HANKOW

Secretary of State,

Washington.

FOR WAR DEPARTMENT FROM DORN

Peiping and Hankow please transmit to Military
Attach. No. 17. January 13, 3 p.m.

Japanese army troops beginning to move west on
railway. Tsingtao airfield being cleared of debris and
rocks. Boom across the entrance to inner harbor partially
cleared and two freighters and one man of war tied up at
docks this morning. Only artillery seen was old 77
millimeter Trupp type. Great amount of supplies being
landed. Japanese Consul General expects Japanese
community to return within a month.

SOKOHN

R22100

EXHIBIT 67

3

December 31, 1937

Mr. Hawkins:

I am returning the aide Memoire which was handed to Mr. Welles by the German Ambassador on October 21, 1937, and sent to you by Mr. Bayre for comment on November 23.

To have come, I feel, to a rather important point in our commercial relations with Germany. Over two years have passed since Germany ceased to enjoy most-favored-nation treatment in this country; a year and nine months ago the Germans made their proposal for the restoration of that treatment; a year and a half ago the imposition of countervailing duties was announced; and a year has elapsed since trade was resumed on the basis outlined in the Treasury Department's release of December 23, 1936. Since German-American commercial relations first reached a stage of advanced deterioration considerable time has slipped away without any constructive step having been taken by this country to place them on a better footing.

During this time, moreover, we have given the German Government no encouragement whatever to take such a step. We did not invite or reply to its earlier proposals; we have expressed ourselves on several occasions in terms

critical

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critical of its commercial policy; and in the memorandum handed to the German Ambassador in July to which the present German Aide memoire is a reply we offered the German Government no incentive to respond even in terms cordial to our commercial policy, much less with a concrete and constructive proposal.

In these circumstances it seems to me that considerable importance is to be attached to the conciliatory language in which the German Aide memoire is written and to the constructive nature of its general tone. I would like to call your attention particularly to the following passages:

"The German Government shares the opinion expressed in the Aide Memoire of the Department of State of July 21 of this year that the most favored nation treatment is the best and safest foundation of international trade. The German Government has advocated and adhered to this opinion for decades. The application of the principle of most favored nation treatment, however, finds its limitation in the necessity of self-preservation of the nation. If Germany to-day, in her international trade practice, does not put this principle into effect fully it is not because she desires to replace it by a better, so-called 'bilateral system'; it is because the German Government against its desire, has been compelled to take recourse to emergency measures the drawbacks of which it fully realizes and the detrimental effects of which have repeatedly and clearly been pointed out by Reichsbankpräsident Dr. Schacht, the author of the so-called 'New Plan'...

"...The German Government is entirely willing to adjust its trade policy to the principle of free exchange of goods as soon as the necessary pre-requisites have been established in the other parts of the world, namely, within the

EXHIBIT 69

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field of general currency stabilization, solution of the debt problem, and equal access to raw materials. The pre-requisites cannot be produced by Germany in her present financial and economic situation. They must be brought about by those States that have disturbed the equilibrium within the other spheres.

"...The German Government regrets that the United States up to now has not seen its way to co-operate in finding an interim solution which would have furnished a practical contribution to the realization of its repeatedly-declared intention of increasing international exchange of goods.

"...Germany is ready and willing to accord to the United States the same favorable treatment as it does to any other country...

"The German Government which has expressed far-reaching acknowledgement of the principles of American trade policy, has repeatedly endeavored to place the trade relations between Germany and the United States upon a new foundation guaranteeing the extension of their mutual exchange of goods...

"...The German Government believes to be in accord with the Government of the United States that a just balance of the economic interests of Germany and the United States on the markets of third countries must be counted among those factors which can serve international economic development and the establishment of universal peace, and that this balance will be achieved if the economic competition of the two peoples is guided by fairness and mutual respect."

When the German Ambassador presented this Aide Memoire to the Acting Secretary on October 21, he asked Mr. Welles if he would study it with sympathetic consideration and if he would likewise please make an effort to read not only the lines but between the lines as well. This desire, that we should read "between the lines", was expressed in these

same

EXHIBIT 70

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same words on another occasion by the First Secretary of the German Embassy who, I understand, was responsible, with the Ambassador, for drafting the Aide Memoire. The First Secretary in this conversation also stated that Germany is in a position now to go considerably farther in what it can offer to make possible an understanding with the United States than it was in the spring of 1936.

The memorandum of Mr. Welles' conversation with Herr Dieckhoff continues, after the above passage, as follows:

"....He said this memorandum was the result of his own conversations with his government in Berlin when he was recently there and was due to his efforts to try to prepare the ground for a more favorable understanding by the German Government of the policy of the United States with regard to a more liberal trade tendency. The Ambassador said that he thought perhaps this memorandum would prepare the way for a further exchange of views between the two Governments, which he hoped would be constructive and lead to a more normal trade relationship between Germany and the rest of the world."

It is true, of course, that the Aide Memoire, as EA points out, contains a certain amount of the old argumentation attempting to justify Germany's present policies and does not offer specifically and in detail any "new constructive basis for rearranging German-American trade relations".

The numerous passages quoted above, however, give it another aspect and make it capable of another construction. Its whole tone, the references to an interim solution, and the Ambassador's statements surely provide grounds for the belief that the German Government's attitude toward the broad problem of Germany's commercial relations with the United States may have

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have undergone an appreciable change and that that Government may now be ready to make an effort, considerably greater than it made in the spring of 1936, to reach an agreement with us. NA, it appears, recognizes this aspect of the Aide Memoire in suggesting, as one of three possible courses of action now open to us, that we might "put aside all argument and attempt to formulate a proposal stating the terms on which we might restore Germany's most-favored-nation privileges".

Whether or not we go this far, it would certainly seem to be not the best policy for us to devote all our attention to the unfavorable aspect of the Aide Memoire, to ignore its favorable aspect, and to be influenced by so doing into giving an unsympathetic reply which would constitute a rebuff to such overtures as the German Government may be making in it.

The maintenance of an unsympathetic attitude by this Government is not to the disadvantage of Germany alone: it has unfortunate consequences also for us. Three of immediate significance may be mentioned first:

a) Of paramount importance is the reaction that failure on our part to respond to German overtures has upon the position of the moderates in government and business in Germany who are seeking to restrain the Party extremists. The old German civil service is still largely intact and, while in many ministries it has been diluted by the infiltration of Party members, its influence under the surface, especially in the Foreign Office where a minimum

of

EXHIBIT 72

- 6 -

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of Party men have gained entrance, is considerable. This influence, as is well known, has been exercised to temper the policies of the Party, and has been a constant element making for moderation and restraint. A continued negative attitude on our part towards Germany and German overtures plays directly into the hands of the Party extremists, and correspondingly weakens the position of the men in the various ministries who might like to see Germany's commercial policies shaped more in harmony with ours, and who could advocate our point of view in Berlin, more effectively than we can, if they were provided with some basis upon which to do it. It might be in our interest, on one occasion at least, to give them something to go on; some "ammunition" to use against the Party men; some help in the struggle in which they face such great odds -- and see what they can make of it.

b) The reaction of our continued unsympathetic attitude upon the German Government, and hence upon our remaining trade with Germany, is to be considered. We made no reply to the German proposals of March, 1936, believing none to be necessary. Despite our silence, the German Government has taken advantage of the occasion provided by the exchange of views between the two governments on the limited question of our conversations of last summer with representatives of the Brazilian Government to raise again the question of the general commercial relations between Germany and the United States. This move comes at a time when the Four-Year Plan is entering its second year. If our decision now is to give

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give a reply of negative nature to the German Aide Memoire, we may expect that the German Government will wait a considerable time before it presents us with a similar opportunity of examining what it may have to offer, without ourselves taking the initiative. During this time the Four-Year Plan may be counted upon to develop with a minimum of regard to our formerly very great interest in the German market.

e) The divergence between our present method of carrying on trade with Germany and our proclaimed commercial policy, and the unfortunate reactions of this situation, also bear mention. At present a large part of the trade between the United States and Germany is being carried on on the basis of the four procedures listed in the Treasury Department's press release of December 23, 1936, and in particular upon the basis of procedure number 2. The effect of this procedure has been to create "inland" accounts in German banks analogous in all essential respects to ASXI, and to make possible a substantial volume of trade of a kind which the United States holds to be contrary to the requirements of the most-favored-nation principle and which it has endeavored to persuade Brazil to curtail. In German eyes, and possibly also in other foreign quarters, this situation is damaging to the prestige of American commercial policy, in that it gives that policy a two-faced appearance. Moreover, this
method

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method of carrying on trade is so obviously different from what it pretends to be that it cannot but have cast a shadow of discredit upon our commercial policy in the eyes of those familiar with it at home. In the absence of an agreement placing trade between the two countries on a new basis, which will not be achieved so long as we maintain our present attitude, it is difficult to see any remedy to this situation.

Failure to find a satisfactory basis for our trade with Germany will also have unfortunate ultimate consequences for us. Two may be discerned in particular:

a) Increased economic pressure on Germany as our trade-agreements program develops (particularly when the concessions to be granted to Czechoslovakia and the United Kingdom are withheld from Germany) will strengthen Germany's feeling of encirclement and will give this feeling more basis in fact. One of the most important objectives of our program is to relieve such pressures--not, so far as it lies within our power--to increase them.

b) Finally it must be recognized that the continued development of autarchy in Germany will make a return to more liberal commercial policies more and more difficult.

In previous discussions of the question of whether this Government should seek a basis for some form of commercial agreement with Germany, we have been inclined, I feel, to place too much emphasis upon the possible effects of such

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EXHIBIT 75

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an agreement upon Germany and the general European situation, and too little upon the actual gains which we might achieve for our trade thereby. The magnitude of the decline which our trade with Germany has suffered is an indication of the prize that is at stake. Not all of the lost trade, of course, could be won back; some part may be permanently gone, either to new domestic industries in Germany or to other foreign sources of supply. But given the reestablishment of a favorable basis for trade between the two countries, much undoubtedly could be recovered. And to the extent that the trade which has supplanted American goods in the German market is a hot-house development, it may be expected in turn to be supplanted by, and to die out before, an expanding volume of healthy trade. The following figures, taken from German statistics, are striking evidence of the magnitude of our loss.

German Imports of All Commodities

	<u>Total</u>	<u>From U.S.</u>	<u>% From U.S.</u>
	(thousands of RM)		
1931-33 Av.	5,199,063	829,004	11.96
1935	4,158,695	240,679	5.78
1936	4,217,948	232,928	5.50
1st 9 mos. 1936	3,138,843	176,029	5.6
1st 9 mos. 1937	3,970,699	200,900	5.1

German Imports of Cotton

EXHIBIT 76

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German Imports of Cotton

	<u>Total</u>	<u>From U.S.</u>	<u>% From U.S.</u>
	(thousands of RM)		
1931-33 Av.	311,634	226,210	72.58
1935	329,722	71,133	21.57
1936	257,702	72,762	28.23
1st 6 mos. 1936	118,806	41,864	35.2
1st 6 mos. 1937	102,903	22,648	21.9

German Exports of All Commodities

	<u>Total</u>	<u>To U. S.</u>	<u>% To U. S.</u>
	(thousands of RM)		
1931-33 Av.	6,736,393	336,215	5.02
1935	4,269,687	189,322	3.97
1936	4,766,948	172,001	3.60
1st 9 mos. 1936	3,457,654	126,976	3.7
1st 9 mos. 1937	4,281,281	151,100	3.5

In the face of such a stupendous loss of trade, may we not, having the authority conferred by the Trade Agreements Act at our disposal and being entrusted with the responsibility of using that authority, be avoiding our duty and falling in our trust when we not only do not make to Germany proposals of our own, but decline even to investigate and encourage Germany's overtures to us?

These considerations lead me to the view that what is clearly not wanted at the present juncture is a continuance of rhetorical argument between the two governments as to which is the more devoted to the most-favored-nation principle or which discriminates against the other country's trade.

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trade. What is needed now is a definite decision on the part of this Government whether it prefers, in view of the many attendant difficulties and uncertainties, to allow trade between the two countries to continue in its present state and probably to decline still further, or whether it is willing to explore, in informal interchanges with the German Government, the possibility of reaching some agreement that would bring improvement.

An agreement with Germany, making possible large increases in exports particularly of a number of staple agricultural products, would not be difficult to formulate and might prove considerably easier to negotiate than we have any idea of.

It is admittedly out of the question that any agreement could be devised that would provide American trade at once with full equality of treatment in the German market. The gap between the treatment American trade now enjoys and the minimum which this Government could consider full equality of treatment is too great to be bridged at one jump. In these circumstances the United States is confronted with the choice of regaining equality of treatment and of restoring its lost trade in two (or three) stages, which implies accepting less than full equality in the first or "interim" stage, or of continuing to maintain the position that it must have "all or nothing" and in fact get nothing.

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EXHIBIT 78

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An interim agreement should of course contain full assurances that the commercial relations between the two countries are to be governed in principle by the rule of equality of treatment applied to all forms of control of trade and of payments therefor, while the treatment of American trade by Germany for which it provides in fact should represent a substantial approach to equal treatment in this unrestricted sense and hence constitute a substantial improvement over present treatment.

In very brief outline such an agreement might be envisaged as follows:

The agreement would be concluded under the authority of the Trade Agreements Act and would comprise two schedules and general provisions according to the usual pattern of this country's trade agreements.

Schedule I would contain a list of duty concessions and a second list, probably longer than the first, of products on which Germany would agree to issue import permits up to a specific amount for each. Schedule II would contain duty concessions granted by the United States to Germany.*

In the general provisions the United States and Germany would guarantee to each other unconditional

Most-

*A study made some months ago on the basis of 1934 figures showed Germany to be the first supplier of 709 items, and the first, second and third supplier of 1,536. Of the 709 items, 654 were dutiable, 506 at rates over 25 percent ad valorem.

EXHIBIT 79

-13-

most-favored-nation treatment in respect of customs duties and related matters. The usual article on monopolies and the recently-adopted provision on exchange control, as well as the minor articles of our standard provisions, would also be included.

As regards quantitative restrictions the United States would obtain full equality of treatment on a vast majority of the products of which it is normally a major supplier to Germany. On a certain limited number of the more important products, however, the quotas allotted to the United States in the "interim" period would fall considerably short of providing full equality of treatment on the basis of the representative period formula but in each case they would represent a large increase over Germany's present imports of the goods in question from the United States.

It is recognized that the first reaction of many will be that any commercial agreement with Germany would be bad domestic politics in that certain groups would oppose it bitterly while the general public would show for it little enthusiasm. Such an agreement might be expected for a period to cause the Administration embarrassment, and to reflect adversely upon the trade-agreements program. This situation might, however, be short-lived. Certainly, the

best

EXHIBIT 80

-14-

best politics of all, at any time, is the politics of prosperity. An agreement with Germany, if at all comprehensive, could hold promise of greater gains for American exports, and particularly American agricultural exports, than an agreement with any other country. If an agreement were concluded following next autumn's elections, a year and a half would still remain before the expiration of the Trade Agreements Act, and two years before the presidential elections, in which its beneficial effects could be influencing and softening public opinion.

In the contribution which it would make towards the cause of peace a commercial agreement with Germany would merit, and might well receive, much approval by the American people. It is true that the argument has sometimes been advanced that such an agreement would tend to increase Germany's aggressiveness, and aid her to carry out her armament program and ultimately to wage war. If this is true, then the basic philosophy of the trade-agreements program is wrong. Would it not be more reasonable to expect that an agreement between Germany and the United States would be a factor making for peace? It would facilitate Germany's acquisition of raw materials; it would assist its export industries; it would be a

proof

EXHIBIT 81

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proof to the German people that the democratic nations are not opposed to Germany's welfare; and it would rob the Four-Year Plan's drive toward increased autarchy of some of its *raison d'être*.

Recommendation

It is recommended that we investigate what the German Government may have to offer, and if that Government seems inclined to make a sincere effort to meet our point of view, that we work out the details of an interim agreement (perhaps along the lines suggested above) with the thought in mind of making public announcement of our intention to negotiate after next autumn's elections.

As a first step in this direction I believe that we should make a reply to the German Government's Aide Memoire in friendly terms. We should avoid in it any formal restatement of our commercial policies and principles, which the German Government has already been instructed in ad nauseam. We should also avoid making it a refutation of statements in the Aide Memoire, or a further argumentation of our views and position. If we are ever to mend our commercial relations with Germany, we must adopt a more sympathetic attitude than that. We are playing a part that is unduly severe if we wait for all of the initiative to be supplied by the party which is in the weaker situation and for all constructive suggestions to

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come from the one least in a position to make them.

Instead, we should refer to the conciliatory passages in the Aide Memoire and particularly to the German Government's reference to the possibility of an "interim solution", and should state simply, that we regret the present state of the commercial relations between the two countries, that we are not unwilling to cooperate with Germany in seeking an interim solution and that, if the German Government should care to renew its suggestions of 1936, with certain modifications, we would give them sympathetic consideration.

A suggested reply to the German Government along these lines is attached hereto.

TA:Darlington:MPD

EXHIBIT 83

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January 8, 1938.

A-3
Mr. Sayre:

I am returning the German aide-memoire which you sent me on November 23 together with a memorandum by Mr. Darlington.

The position taken in this memorandum seems to me entirely sound. There is much to be said for the view that a continued unsympathetic attitude on our part would tend to weaken further the position of the more moderate elements in the German bureaucracy. Moreover, when our concessions to be made to the United Kingdom and Canada are withheld from Germany, economic pressure on Germany will be increased and the drive towards autarchy will be given greater impetus, results diametrically opposed to what we are striving to achieve through the trade-agreements program.

It is not the intention of course that any public steps be taken to conclude a trade agreement with Germany prior to the elections in the fall of this year. However the period between now and then might well be utilized in carrying on informal and confidential exploratory discussions with a view to working out answers to the difficult questions involved.

Mr.

EXHIBIT 84

- 2 -

Mr. Darlington points out that a trade agreement with Germany holds greater possibilities for an expansion of our exports, particularly of agricultural products, than an agreement with any other country, and that such an agreement would probably be an important force making for world peace. These points seem to me to be also well taken.

If a memorandum indicating a readiness to enter into exploratory discussions were given to the German Embassy it would be desirable to inform them that such discussions must be of an informal and confidential character.

Since the subject is of such outstanding importance, I believe it would be desirable for it to be further discussed with the interested Division. I believe that you will wish, therefore to send the file next to Eu, since it has not yet been seen by that Division, and then back to EA for consideration of our comment.

Harry C. Hawkins.

TA:HRJ:JRD

EXHIBIT 85

MEMORANDUM

The United States Government has devoted careful study to the Aide Memoire left by the German Ambassador with the Acting Secretary of State on October 21, 1937. While it cannot subscribe to a number of the contentions advanced by the German Government throughout the Aide Memoire, it has noted with satisfaction the German Government's willingness, given certain conditions, "to adjust its trade policy to the principle of the free exchange of goods" and its assurance that "it is ready to accord to the United States the same favorable treatment that it does to any other country".

In particular, the United States Government has noted with deep gratification the German Government's renewed affirmation of its belief in, and adherence to, the unconditional most-favored-nation principle. As the German Government knows, the United States is

convinced

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convinced that the interests of world trade, and hence of the world's commercial nations, are best served by the application of the principle of equality of opportunity and treatment not only to tariff rates, but also to all other measures that may be adopted to control trade or payments therefor.

The United States Government keenly regrets that, although almost two and a half years have passed since the suspension of the most-favored-nation provisions of the Treaty of Friendship, Commerce and Consular Rights, it has not yet been possible to reestablish commercial relations between the two countries upon this basis. In its Aide Memoire the German Government intimates that an interim solution might be found which might furnish a practical contribution to the realization of the desire of both countries to increase their exchange of goods. The United States notes that the German Government still considers the suggestions made informally by it in March and May, 1936, as a basis for the negotiation of an agreement of this nature.

EXHIBIT 87

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The United States is not unaware of the economic and financial difficulties with which Germany is confronted. Without commenting upon the German Government's analysis of the origin of these difficulties, it recognizes the limitations which they presently impose upon Germany's possibilities of action. In view of these circumstances the United States Government is ready to cooperate with the German Government in seeking some temporary, or interim, solution to their common problem, which would regularize German-American commercial relations pending their reestablishment upon a full most-favored-nation basis and at the same time facilitate and hasten the attainment of that end. Any plan designed to provide such a solution, in order to be acceptable to this Government, must be based upon an agreement that the commercial relations between Germany and the United States are to be governed in principle by the rule of equality of treatment, applied to all forms of control of commerce and of current commercial payments, and must provide that the treatment to be accorded in fact to American trade by

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Germany during the interim period shall represent a substantial approach to equal treatment in this unrestricted sense and hence constitute a substantial improvement over present treatment. The suggestions offered by the German Government in March and May, 1936, while they may be construed as responding in general terms to the first of these conditions, fall short by a considerable margin of satisfying the second.

If the German Government should care to renew its suggestions, modified in the sense outlined above, this Government would be pleased to accord them sympathetic consideration.

Department of State,

Washington,

TA:Darlington:MPD
12-31-37

EXHIBIT 89

49

CORRECTED COPY

EG

A portion of this telegram must be closely paraphrased before being communicated to anyone. (A)

Hankow

Dated January 11, 1938

Rec'd 8:20 p.m., 12th

Secretary of State,

Washington.

24, January 11, 3 p.m. (GRAY)

Following for War Department from Colonel Stillwell:

(END GRAY) "Since the capture of Hankow the front has melted away, fighting has practically ceased except on the Tsingpu line, and the military chiefs have been at a loss for a plan of action. The Chinese realize that they cannot compete in a stand up fight. The Japanese realize that they are extended dangerously and they can see an apparent target to strike at that will give them a decision. Both sides are in a quandary, the Japanese hoping the Chinese will ask for peace, the Chinese hoping for intervention by a third power but determined not to quit.

(GRAY) On the Chinese side only the Reds have a definite plan, the essence of which is the adoption of guerrilla warfare on a wide scale and the mobilization of the masses. This program has a strong appeal and has gained popular backing. (END GRAY) The Kuomintang leaders have been forced to take notice, since they can

suggest

EXHIBIT (9)

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-2- 24, January 11, 3 p.m. from Hankow

suggest nothing better, but they are not pushing the program in a wholehearted way, because its success will mean the passing of power to the Reds. And perfect support by the Government has therefore been extremely meager to date. (GRAY) Present indications are that this policy will be adopted and that there will be little further serious effort to oppose the Japanese with a field army. The question is, can it succeed? Guerrilla warfare means to conclude action by small units scattered over wide areas. Control is extremely difficult and without some moral force which urges on the individual concerted action is unlikely. This new force has elsewhere been supplied by religious fervor or patriotic zeal. In China the religious element is lacking and patriotic fervor is as yet largely undeveloped, though growing steadily. It is hard to arouse the spirit of self-sacrifice in people who have been treated as badly by their own troops as they have by the enemy. (EP) (GRAY) However, the Chinese have been swept into mass action by propaganda in the past and the Reds claim that their plan will do it now. (GRAY) To supply this patriotic urge to self-sacrifice which is essential for success they are depending on the student type of agitation to arouse the people. In regions where Chinese troops have committed excesses

results

EXHIBIT 91

-3- 24, January 11, 3 p.m. from Hankow

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results will be disappointing. In others where only the heavy hand of the Japanese has been felt, there may be more response. The question of arming the volunteers is however a serious matter; arms by the million are not available. The time factor is also important and it is doubtful whether this can be done short of six months by the Chinese. Based on the facts at present apparent the resort to guerrilla warfare by the Chinese cannot be expected to be adopted with enthusiasm by the Chinese as a whole and cannot have much more effect than to harass an enemy who will still be able to keep a firm hold on the occupied territory.

Twenty-four light Japanese bombers with eight pursuits flew in at 5,000 feet from the east about noon today and bombed Hankow airfield heavily. Little damage. Weather overcast and hazy. Anti-aircraft fire ineffective. No Chinese airplanes in the air. No Japanese losses. Formations: groups of three in wedge with pursuit all on right (north) flank. Airplanes turned and flew off to northeast.

Query. Does War Department desire further report direct movements of personnel to Military Attaché's office in China, or will Military Attaché be free to make changes that may seem desirable?" (END GRAY)

JOHNSON

HFD:KLF:W C

23

A i d e - M é m o i r e .

I.

Die Deutsche Regierung teilt die in dem Aide-Mémoire des Department of State vom 21. Juli d. Js. zum Ausdruck gebrachte Auffassung, daß die Meistbegünstigung die beste und sicherste Grundlage des internationalen Handels ist. Sie hat diese Auffassung jahrzehntelang vertreten und befolgt. Die Anwendung des Grundsatzes der Meistbegünstigung findet aber ihre Grenze an der Notwendigkeit der Selbsterhaltung der Nation. Wenn Deutschland heute in seiner handelspolitischen Praxis diesen Grundsatz nicht in vollem Umfange zur Geltung bringt, so geschieht das nicht, weil es an seine Stelle ein besseres sogenanntes "bilaterales System" setzen möchte. Die Deutsche Regierung hat vielmehr gegen ihren Wunsch zu Notmaßnahmen greifen müssen, deren Schattenseiten ihr wohl bewußt sind und deren nachteilige Wirkungen

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EXHIBIT 98

- 2 -

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kungen auch der Urheber des sogenannten "Neuen Plans", Reichsbankpräsident Dr. Schacht, wiederholt deutlich gekennzeichnet hat. Ein grundsätzlicher Gegensatz zwischen dem von Deutschland angeblich befolgten "bilateralen System" und dem Meistbegünstigungssystem besteht übrigens nicht. Er kann schon deshalb nicht bestehen, weil Deutschland das auch von den Vereinigten Staaten auf Grund des Ermächtigungsgesetzes vom 12. Juni 1934 angewandte System der Meistbegünstigung mit Tarifabreden gar nicht aufgegeben hat. In Handelsabkommen mit mehr als 50 Ländern ist Deutschland auch heute noch an den Grundsatz der unbedingten Meistbegünstigung gebunden, und zwar auch bei denjenigen Staaten, mit denen Zahlungs- und Verrechnungsabkommen bestehen. Es mag dahingestellt bleiben, ob die Auffassung, wonach die Meistbegünstigung sich auch auf die Devisenzuteilung erstreckt - wenn auch nur in dem Prozentsatz einer sogenannten

genannten

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genannten "repräsentativen Periode" - mit dem Begriff der unbedingten Meistbegünstigung, wie er sich nach seiner historischen Entwicklung in Wissenschaft und Praxis heute darstellt, im Einklang steht oder nicht. Tatsächlich haben die Vereinigten Staaten selbst nicht in allen seit Juni 1934 abgeschlossenen Handelsabkommen auf einer uneingeschränkten Anwendung der Meistbegünstigung in dieser Auslegung bestanden. Auch Deutschland könnte in seiner gegenwärtigen wirtschaftlichen Notlage trotz Anerkennung des Grundsatzes einer repräsentativen Periode vertragliche Zusagen über Devisenbescheinigungen ohne Einschränkung dieses Grundsatzes nicht machen.

Die Ursachen der gegenwärtigen Notlage sind der Regierung der Vereinigten Staaten bekannt. Sie liegen vor allem in den unseligen Folgen des Deutschland aufgezwungenen Versailler Vertrages, der Deutschland

wesentliche

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wesentliche Grundlagen seiner Rohstoffbeschaffung genommen und zugleich untragbare Handelsverpflichtungen auferlegt hat. Zu den politischen Zielen kam der Druck derjenigen Regierungen anderer Länder, die ihre Absatzmärkte für deutsche Waren nur unter besonderen Bedingungen zu öffnen bereit waren. Dies war vor allem bei Ländern der Fall, denen gegenüber der deutsche Handel aktiv war und die nach einem Druck ausübten, um sich aus der deutschen Aktivität für ihre Kapitalforderungen zu befriedigen. Unter diesem Druck entstanden die Clearing-Verträge, die die Bindung derjenigen Beiträge zur Folge hatten, die Deutschland früher dazu verwenden konnte, Käufe in Ländern zu tätigen, mit denen der deutsche Handel passiv war, wie z.B. mit den Vereinigten Staaten. Die heute in der ganzen Welt verbreiteten Systeme der Kontingentierung, des Clearings,

der

EXHIBIT 96

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der Kompensation usw. sind nicht von Deutschland erfunden, sondern Deutschland aufgezwungen worden. Die Deutsche Regierung ist durchaus bereit, ihre Handelspolitik mit dem Grundsatz des freien Warenaustausches in Einklang zu bringen, sobald in der übrigen Welt die Voraussetzungen hierfür gegeben sind, und zwar auf dem Gebiet der allgemeinen Währungsstabilisierung, der Lösung des Schuldenproblems und des gleichberechtigten Zugangs zu den Rohstoffen. Diese Voraussetzungen können von Deutschland in seiner gegenwärtigen Finanz- und Wirtschaftslage nicht geschaffen werden. Sie müssen von den Staaten herbeigeführt werden, die das Gleichgewicht auf den anderen Gebieten gestört haben.

II.

Die Deutsche Regierung bedauert, daß die Vereinigten Staaten sich bisher nicht zu einer Zusammenarbeit bereit gefunden haben, um eine Zwischenlösung zu

finden

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finden, welche zu der Verwirklichung ihrer wiederholt erklärten Absicht, den internationalen Güteraustausch zu vergrößern, einen praktischen Beitrag geliefert haben würde.

Wenn nach den Worten des Aide-Mémoire dem Handel anderer Länder in den Vereinigten Staaten gleiche Möglichkeiten gewährt werden, sofern diese Länder die Vereinigten Staaten ihrerseits nicht diskriminieren, so stellt die Deutsche Regierung fest, daß die Vereinigten Staaten von Deutschland nicht diskriminiert werden. Deutschland ist bereit, die Vereinigten Staaten so günstig wie irgendein Land zu behandeln. Darüber hinaus behandelt Deutschland die Vereinigten Staaten schon jetzt hinsichtlich der Zuteilung von frei verfügbaren Devisen fast durchweg günstiger als andere Länder.

Umgekehrt fühlt sich Deutschland aber von den Vereinigten Staaten diskriminiert. Die Vereinigten

Staaten

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Staaten gewähren gewissen anderen Ländern, die gleichfalls ihrer Einfuhr und dem Zahlungsverkehr mit dem Auslande Beschränkungen auferlegen, Meistbegünstigung, ohne daß diese Länder sich ihrerseits zu einer uneingeschränkten Anwendung des Grundsatzes der Meistbegünstigung, soweit er sich auf die Zuteilung von Devisen nach dem Prozentsatz einer repräsentativen Periode bezieht, vertraglich haben verpflichten müssen. Die Deutsche Regierung kann den Grund nicht erkennen, warum die Vereinigten Staaten nur im Verhältnis zu Deutschland die Gewährung der Meistbegünstigung davon abhängig machen, daß Deutschland sofort und ohne jede Einschränkung diesen Grundsatz in der Praxis durchführt.

Die Deutsche Regierung hat wiederholt den Versuch gemacht, unter ausdrücklicher weitgehender Anerkennung der Grundsätze der amerikanischen Handelspolitik, die Handelsbeziehungen Deutschlands mit den Vereinigten Staaten

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ten auf eine neue, die Ausweitung des gegenseitigen Waren-
austausches gewährleistende Grundlage zu stellen. Sie
hat im Anschluß an ihre Anregungen vom März 1936 zuletzt
am 31. Mai 1936 in ihren Erklärungen zu einem von der Ame-
rikanischen Regierung vorgelegten Fragebogen konstruktive
Vorschläge unterbreitet, ohne hierauf bis heute eine Ant-
wort erhalten zu haben. Diese Erklärungen werden deut-
scherseits auch heute noch als Verhandlungsgrundlage
betrachtet.

III.

Wenn in dem Aide-Mémoire ausgeführt wird,
daß ein Ausfuhrförderungssystem wie das deutsche den nor-
malen Wettbewerb stört, so sollte nicht vergessen werden,
daß der internationale Wettbewerb primär durch die von
verschiedenen Regierungen beschlossene Devaluation ge-
stört worden ist. Wenn aber in dem Aide-Mémoire behauptet

wird

EXHIBIT 100

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wird, daß die Deutsche Regierung es in ihrer Hand habe, durch unterschiedliche direkte Subsidien jede beliebige Ware auf dritten Märkten wettbewerbsfähig zu machen und damit das Geschäft anderer Länder auf diesen Märkten zu stören, so ist nochmals auf folgendes hinzuweisen: Die Mittel, die durch die freiwillige Selbsthilfeaktion der deutschen gewerblichen Wirtschaft aufgebracht werden, dienen zum teilweisen Ausgleich des gerade vom Standpunkt der Gleichheit der Wettbewerbsbedingungen ungerechtfertigten Währungsvorsprungs. Von diesem Gesichtspunkt aus ist die Selbsthilfeaktion entstanden und in diesem Sinne wird sie praktisch angewandt. In einzelnen Fällen mag der Verkäufer einer deutschen Ware diese Selbsthilfeaktion beansprucht und gleichzeitig der Käufer der Ware einen Vorteil ausgenutzt haben, den ihm zum Beispiel die Bezahlung mit Aski-Mark gewährte, auf deren Kursgestaltung die Deutsche Regierung leider keinen Einfluß hat. Durch das

Zusammen-

EXHIBIT 101

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Zusammenwirken dieser beiden Faktoren mag dann eine Verbilligung der deutschen Ware eingetreten sein, die den Währungsvorsprung des Bezieherlandes oder eines mit der deutschen Ware konkurrierenden dritten Landes überstieg. Die Deutsche Regierung ist aber bemüht gewesen, diesen - im übrigen schwer kontrollierbaren - Fällen nachzugehen und für sofortige Abstellung Sorge zu tragen. In jedem Falle ist die Deutsche Regierung sorgfältig darauf bedacht, daß die Selbsthilfeaktion der deutschen gewerblichen Wirtschaft den Charakter einer Beihilfe zur Überwindung der durch Abwertung hervorgerufenen Währungsvorteile anderer Länder behält und nicht darüber hinausgeht.

IV.

Zu der Statistik über die Ausfuhr der Vereinigten Staaten, Deutschlands und der übrigen Länder nach Brasilien ist folgendes zu bemerken:

Die

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Die Ausfuhr der Vereinigten Staaten nach Brasilien hat seit dem Jahre 1934 im ganzen zugenommen, wenn auch der prozentuale Anteil der Vereinigten Staaten an der Gesamteinfuhr Brasiliens etwas geringer geworden ist. Wenn bei einzelnen Waren ein Ruckgang der Einfuhr aus den Vereinigten Staaten eingetreten ist, so ist dieser Ruckgang nicht durch eine Steigerung der deutschen Einfuhr in Brasilien verursacht worden, sondern vielmehr durch eine vermehrte Einfuhr dieser Waren durch andere Lander, mit denen ubrigens die Vereinigten Staaten Meistbegunstigungsvertrage abgeschlossen haben. Das ist z.B. der Fall bei Nahmaschinen aus Canada, bei Eisenbahnoberbaumaterial, Lokomotiven und Eisenbahnwagen aus GroB-Britannien und Belgien. AuBerdem besteht mehr als die Halfte der Gesamteinfuhr Brasiliens aus den Vereinigten Staaten in Waren, die Deutschland ubhaupt nicht oder wenigstens nur in verhaltnismassig beschranktem Umfang nach Sudamerika ausfuhrt. Wahrend die

Vereinigten

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Vereinigten Staaten Automobile, Benzin, Petroleum, Mineralöle, Gummimaterial, Rundfunkgeräte, Blech, Tafelobst, Frucht- und Gemüsesäfte, Feer, Weizen usw. nach Brasilien ausführen, umfaßt die deutsche Ausfuhr nach Brasilien ganz andere Waren, wie Steinkohle, pharmazeutische Präparate, Gerste, Hopfen, Felle, Leder, Anilinfarben usw.

Die in dem Aide-Mémoire angeführten Ziffern über die prozentuale Beteiligung des Deutschen Reiches und der Vereinigten Staaten an der brasilianischen Einfuhr allein geben übrigens kein richtiges Bild, da sie nur von der Einfuhr seit 1934 ausgehen. Zur Beurteilung der Frage, ob tatsächlich der deutsche Wettbewerb die amerikanische Einfuhr nach Brasilien zurückgedrängt hat, ist es wesentlich, auch die Einfuhrziffern Brasiliens in der Vorkriegszeit zu berücksichtigen. Hiernach ergibt sich folgendes Bild:

Beteiligung

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Beteiligung Deutschlands und der Vereinigten Staaten an
der brasilianischen Einfuhr in Prozenten der Gesamteinfuhr.

	Deutschland	U.S.A.
1907	15.3	12.8
1908	14.9	12.1
1909	15.6	12.4
1910	15.9	12.8
1911	16.8	13.3
1912	17.2	15.6
1913	17.5	15.7

In den sieben Jahren vor dem Weltkriege ist also der Anteil Deutschlands an der brasilianischen Einfuhr stets größer gewesen als der Anteil der Vereinigten Staaten. Erst durch den Weltkrieg und die Verhältnisse der Nachkriegszeit ist die deutsche Einfuhr zurückgedrängt worden und hat sich erst allmählich wieder erholen können. Schon die Gegenüberstellung des deutsch-brasilianischen Warenaustausches vom Jahre 1913 in Höhe von rund 447 Millionen Mark mit dem des Jahres 1936 in Höhe von rund 265 Millionen Reichsmark ergibt, daß von einer unangemessenen Steigerung des deutschen Außenhandels mit Bra-

silien

EXHIBIT 105

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silien nicht die Rede sein kann.

V.

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Die Deutsche Regierung hat zu ihrem Bedauern feststellen müssen, daß die deutsche wirtschaftliche Betätigung in latein-amerikanischen Ländern in der amerikanischen Presse und durch private Organisationen der Wirtschaft ständig Angriffen und Verdächtigungen ausgesetzt ist, die eine Stütze in den Tatsachen nicht finden. Die Deutsche Regierung glaubt sich mit der Regierung der Vereinigten Staaten darin einig, daß auch ein gerechter Ausgleich der wirtschaftlichen Interessen Deutschlands und der Vereinigten Staaten auf den Märkten dritter Länder zu denjenigen Faktoren gehört, die der wirtschaftlichen Entwicklung und der allgemeinen Befriedung der Welt dienen können, und daß dieser Ausgleich eintreten wird, wenn der wirtschaftliche Wettstreit der beiden Völker von Fairness und gegenseitiger Achtung geleitet ist.

EXHIBIT 106

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AIDE MEMOIRE

The German Ambassador on June 30, acting on instructions from his Government and referring to an invitation extended him by the Under Secretary of State to discuss with him the nature of the conversations which officials of the United States Government were carrying on in Washington with the Brazilian Ambassador and the Brazilian Minister of Finance, made oral representations to the Under Secretary raising the question whether these conversations did not involve unwarranted and unfair interference on the part of the United States in trade relations between Germany and Brazil. The Ambassador stated that Germany during recent years had been endeavoring to rebuild its exports to Brazil, which had fallen to low levels after the World War, and that it had only recently succeeded in doing so and in fact in somewhat exceeding its pre-war percentage in Brazilian importations. This he said did

EXHIBIT 107

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not constitute a threat or jeopardy to American commercial interests in Brazil and the increased trade had not been derived at the expense of the United States. The Ambassador said that his Government was most heartily in accord with the principles maintained by the Government of the United States as to the necessity of unconditional most-favored-nation treatment and as to the need for the elimination of trade barriers, and that the autarchic policies now pursued by Germany were intended only to obtain for German exports the same advantages which had accrued to the exports of the United States and of other great commercial nations through the devaluation of their currencies. He concluded by saying that his Government reserved complete liberty of action to take such measures as it might find necessary, in case activities of the Government of the United States should lead Brazil to limit its trade with Germany.

An oral reply was at once made to the Ambassador's representation. It is now desired to confirm and amplify

this

EXHIBIT 108

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this reply.

The Ambassador has said that the German Government is in hearty accord with the principles maintained by the Government of the United States as to the necessity for most-favored-nation treatment and the removal of trade barriers. The Government of the United States does indeed attach great importance to the principle of equality of treatment in international commerce as the most satisfactory basis upon which a healthy international trade can be reconstructed as a permanent foundation for peace.

The Government of the United States has been endeavoring to promote the restoration of international trade through the immediate reduction of excessive trade barriers and has adopted as the most practical means to this end a program of negotiating

EXHIBIT 109

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tinating bilateral trade agreements with individual countries while extending to all countries which do not discriminate against its trade the benefit of the tariff reductions and other trade advantages it grants any country (Cuba always excepted). The United States has also urged on other countries, and especially on the great commercial countries which exercise a preponderant influence on the commercial policies of the world, the adoption and active execution of similar principles and policies, and the abandonment of policies and practices which conflict with and threaten to thwart the movement for restoration and liberalization of world trade.

Unlike the policy of countries which by clearing and compensation arrangements make access to their markets depend upon the obtaining from other countries of special terms of payment which require purchase of their exports, and do not therefore permit the full and ordinary action of international competition, the commercial policy of the United States imposes no such requirement on the export trade of other countries and involves no economic coercion. The United States seeks equality of commercial

EXHIBIT 110

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certain reasonable and recognized exceptions. It gives other countries equality of opportunity to buy and sell in the United States, subject only to the requirement that countries which receive non-discriminatory treatment from the United States shall not discriminate against the United States, and to the historical and recognized exception in favor of Cuba. It is not a narrow policy of seeking advantage for the United States and it will in part have failed if it does not serve to promote a general increase in the volume and value of international trade from which the United States and the world will receive greater benefit than would be possible from any cumulation of special advantages under discriminatory trade régimes.

It must be manifest that such a policy is not motivated by hostility to or jealousy of the commercial expansion of any country nor does it seek unfair advantage over the trade of any country. The United States does not impute such motives to any country. It does believe, however, that certain types of commercial policies of other countries,

EXHIBIT 111

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tries, for whatever reasons they may have been adopted, may tend to hamper and thwart its own more liberal policy and its broad objectives, and it feels fully warranted in discussing this problem with any government in whose territories it may arise and in seeking a mutually satisfactory solution.

The Government of the United States welcomes the German Government's repeated expression of approval of the principle of most-favored-nation treatment and of the removal of trade barriers. Certain aspects of current German commercial policy would appear to make more difficult the application of these principles rather than to advance them.

German trade with most of the countries of Europe and with some in other parts of the world is governed by compensation arrangements under which the proceeds of the sale in Germany of the products of the soil or industry of the other party are required to be spent, with limited exceptions, for German goods for export to and use in the territory of the other party. With some other countries the same result is brought about without a compensation

EXHIBIT 112

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arrangement by German regulations limiting the use of the proceeds of their exports - the system of compensation marks. Restrictions on the transfer and on the use in Germany of funds payable to non-residents on interest-bearing and other accounts not directly connected with current international trade have been used for the same purpose. It is argued that this is intended to obtain for German exports only the same advantages which other countries have obtained by devaluing their currencies. It is none the less clear that where the sale of the products of a country or the effective possession of property of its nationals can be attained only by the importation of German goods in corresponding value, equality of opportunity for exporters of other countries to compete with German exporters is maintained. With the refinements of practice devised by the German exchange control authorities for purposes of commercial policy, German compensation mark practices become in fact potent and effective weapons for obtaining advantages over

EXHIBIT 113

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competitors of non-German residence. The restrictions on the use of the bank deposits in Germany which are designated as compensation marks result in the transfer of such marks among residents of other countries at prices much lower than the official parity of the Reichsmark with gold. The highest legal adviser of the United States Government, after careful consideration of procedures of this kind as used in German trade with the United States in 1936, ruled that they constituted the payment or bestowal of a bounty or grant calling for the imposition of countervailing duties under the laws of the United States.

Germany is not the only country fostering exports by compensation arrangements or by permitting its currency to be sold at depreciated prices to certain non-residents for restricted uses, although it is outstanding among such countries. Its exports, however, receive one distinctive advantage, inconsistent with a régime of equal competition, through provision for massive but selective direct subsidies. In the form of voluntary self-aid, German industries subscribe annually to an export subsidy fund

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 which is reputed to amount during the current year to 1,000,000,000 Reichsmarks. This would permit a uniform subsidy on all German exports of more than 20 percent of their value. Naturally, however, the actual direct subsidization is selective and, while the facts are not officially published, it is understood that subsidies as high as 50 percent and even 60 percent of invoice value have in some instances been paid to enable German exporters to meet competition in foreign markets.

The effect of trade methods such as have been described appears to be manifest in shifts in trade too extensive to be ascribed to any normal change in competitive conditions. Thus Brazilian statistics show the following percentages of participation of Germany in supplying Brazilian imports:

1934	Germany	14.02%	United States	23.67%	Others	62.31%	
1935	Germany	20.44%	United States	23.36%	Others	56.20%	
1936	Germany	23.50%	United States	22.12%	Others	54.38%	
1st Quarter	1937	Germany	26.03%	United States	21.02%	Others	52.95%

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6 The problem which such subsidization presents to the exporters of other countries, including those of the United States, must be appreciated. By the use of subsidy procedure every field of trade, no matter how reasonable the price of the commodity offered, no matter how well-established the business connection, may be disturbed by some administrative decision to subsidize a competing product sufficiently to disturb the business. Competition so directed seems to this Government to be contrary to the principle of equality to which the German Government declares itself to be attached. Furthermore, it takes the determination of trade movement out of the ordinary competitive circumstance and places it into the hands of Government officials whose calculations need not correspond to those of competitive cost. Against the possibility of competition open to such direction it would seem plain that competition of private business, dependent solely on itself, needs safeguarding. Without such safeguard both the principles embodied in

EXHIBIT 116

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the trade agreement between the United States and Brazil and the trade benefits to be expected therefrom are brought into jeopardy. In return for the trade opportunities granted to Brazil under the Agreement, American trade was pledged corresponding opportunity. Trust was placed solely in the operations of those private business calculations which have built up Brazilian-American trade in the past, to extend that trade if tariff barriers were lessened. All these expectations would be invalidated if American trade were dispossessed as a result of the use of a system of compensation procedures and governmental subsidies. The German Government surely realizes the problems created by the use of these procedures; their continued effort would be to weaken any commercial treaty arrangements based on other principles unless safeguards were taken against them; and with the weakening of these commercial treaty arrangements the underlying principles themselves will become inoperative.

There is no basis for statements, or implications that the Government of the United States has been in-

EXHIBIT 117

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fluencing the Brazilian Government in its trade relations with Germany by threats of coercion. A trade agreement based on the principle of most-favored-nation treatment was concluded between the United States and Brazil two and a half years ago and Brazil was the first American power to join the United States in its policy of reconstructing international trade on the basis of equality of treatment. Both Governments are directing their efforts to assure that the principles underlying this Agreement shall be sustained, and that the anticipated benefits be realized in their mutual trade relations.

Department of State,

Washington,

July 21, 1937.

