DIARY

Book 502

February 27 and 28, 1942

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TREASURY DEPARTMENT
Washington.

FOR RELEASE, MORNING NEWSPAPERS,
Friday, February 27, 1942

The Secretary of the Treasury, by this public notice, invites tenders for $150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated March 4, 1942, and will mature June 3, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern war time, Monday, March 2, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on March 4, 1942, provided, however, any qualified depositary will be permitted to make payment by credit for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

30-49

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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-oOo-

February 27, 1942
11:02 a.m.

HMJr: Hello.

Ganson Purcell: Hello.

HMJr: Yes. Morgenthau.

P: Good morning, Mr. Secretary. I'm sorry I wasn't here when you called last night and I've been having plenty to do this morning.....

HMJr: Well, that's good.

P: .....or I would have called you earlier.

HMJr: Well, I wanted to - I happened to be in Hopkins' room when he telephoned you yesterday.

P: Yeah.

HMJr: So I wondered if that letter went over.

P: Yes, it did, sir. I sent it over - oh, within ten minutes after I talked with you.

HMJr: You did. Well, then I'll check over there and see if anything's happened, because I've got - I want to know today whether I do or don t, because - you know, we've been fooling around with it so long.

P: Yeah, I know. And, of course, this morning's picture has just complicated our situation terribly.

HMJr: What's that?

P: Well, the Bureau of the Budget put us down at the end of the list on the defense and our defense agency.

HMJr: Oh, I didn't see that. Is that in the paper?

P: Yeah. Yeah, they just dumped us down in class five with all the odds and ends.

HMJr: Well.

P: We're just terribly upset about it, and we don't know what the hell.

HMJr: I see.

P: (Laughs)

HMJr: Well. Is that in the paper today?

P: Yes, sir.

HMJr: I'll have to look at it.

P: Yeah, it's in the morning "Post", and you'll find us back with the liver pills on page 16, I think.

HMJr: Well, that's ridiculous.

P: Well, I just don't understand it myself. It's really one of the most upsetting things that ever happened.

HMJr: Well, I tell you what I'm going to do. I'm going to tell Bell. I sent word to him once, I'll send him again, I want to organize this Capital Issues Committee and let's do it right away.

P: Well, I'm all with you on that. I'd give you every help.....

HMJr: It may be too late, but we may - maybe we can work you up the ladder a little bit.

P: Well, I hope so.

HMJr: Okay.

P: All right. Thank you very much, sir.

HMJr: Thank you.

P: All right. Good-bye.

February 27, 1942
11:16 a.m.

HMJr: Hello.

Operator: Drew Pearson.

HMJr: Hello.

Drew Pearson: Hello.

HMJr: Henry Morgenthau.

P: Yeah.

HMJr: I just was handed what you wrote about me.....

P: Yeah.

HMJr: .....and I just wanted to say, "Thank you".

P: Well, no need to thank me. I believe it. I'm sorry it was a little late, but I've just been - you know, it's gone up to New York - it's probably in New York - to be sent out.

HMJr: Well, anyway, I thought it was very nice and I just - I don't imagine too many people say thank you these days.

P: Well, I appreciate it anyway.

HMJr: It was very nice of you.

P: All right. Thank you for calling.

HMJr: Good-bye.

P: Good-bye.

February 27, 1942

Phone call from Mr. Foley at 1:06 pm

"Leo crowley just called me up and read me a proposed letter he will send to the President on Alien Property Custodian along the lines he agreed to yesterday afternoon. It's in pretty good shape and he said he would come over and see me after lunch."

February 27, 1942
2:40 pm

ALIEN PROPERTY CUSTODIAN

Present: Mr. Foley:

H.M.Jr; This is what happened in Cabinet today. Before Cabinet I spoke to both Wickard and McNutt. I said I was going to bring up this question of how to handle these people on the West Coast, and I thought that they should handle it and they said, "Fine." Well, the President sits down at Cabinet and starts to talk about this thing, and he evidently had a memorandum before him from the Attorney General, and he turns to the Secretary of War and says, "Just what are you doing?" Well, he shows a map and he has got a certain line, and he proposes to move out first the Japanese and then the Germans and then the Italians and so forth and so on, and that this General DeWitt is in charge. What is going to happen to them afterward, nobody seems to know, and what they are going to do with their properties. The President had a long memorandum. Then he said, "Henry is going to object terribly to what I am going to say," but he said, "I don't know why the Treasury wants to bother with these little businesses and all of these properties on the West Coast." It isn't as though I, the Secretary of the Treasury, was going to do it or the General Counsel, it is somebody down the line. He says, "If you were smart, I don't think you would take it. I said, "Mr. President, we don't want it. All we have had in mind is for two years we have been having frozen funds as part of the thing, and we thought that these big companies we could handle, but," I said, "when it comes to these little farms and businesses and so forth,

I agree with you, we don't want it." So the whole time Francis Biddle was leaning over me, his face was almost purple, it was so livid, he was so excited about this thing. He kept saying, "Can't I take it up with the Director of the Budget?"

The President said, "Now, of course, the question of actual frozen funds, that, of course, should stay in the Treasury, but the rest of it, I don't see why it should." So, I said, "Well, it seems to me that McNutt has the responsibility of looking after the people in the city, and Claude Wickard of looking after the people in the country." Well, then somebody - oh yes. Then again, very, very over-excited, Biddle said, "Well, I don't see why a half dozen people should be looking after it. It should be one person." And to my amazement Ickes spoke up and said, "Well, I am interested too, and I think it should be one person." Well, I said my piece. I didn't say anything more because you yourself said that we didn't want it, and we are not equipped to look after these little things.

MR. FOLEY: That is right.

H.M.JR: Now, I don't know what your contact has been on the West Coast with General DeWitt, but certainly the way the thing was prepared the Army hasn't done a thing, and they are talking about moving - let's see, it is two hundred thousand people on the West Coast and from fifty to a hundred and fifty thousand people off the main island of Oahu, and we are certainly not equipped to handle that; and with the scramble for these little farms and everything else - well, you yourself said you didn't want it.

MR. FOLEY: No, we don't want it. That would sink us.

H.M.JR: Then again before I left, Biddle said he would get in touch - he said, would the President call up the Director of the Budget, and the President said, "No, you do it," to Biddle. I have never seen Biddle so purple. He was absolutely livid. Well, this, I think, is going to be one of the worst messes, because here you are going to move these people and we are not equipped to handle all these little things, and I gather from what the President said that I imagine he will throw the big business in with the little. Now, I thought that in fairness to Leo Crowley I ought to tell him that this was in the offing, and that if he really wants to be Alien Property Custodian - with what I am going to tell him, he had better hold off, but I want him to know it before he sends the letter, which is only fair.

MR. FOLEY: That is right.

H.M.JR: Is that right?

MR. FOLEY: Oh yes. I think you have got to tell him what has taken place since we had this talk yesterday.

H.M.JR: So then I thought after - am I moving too fast?

MR. FOLEY: No, I am following you.

H.M.JR: Well, I will tell you, Ed, old man, the way I feel - I put up the fight of my life.

MR. FOLEY: I know, I am not--

H.M.JR: I think we are both lucky, because to be sandwiched in between the Army, the Attorney General, Paul McNutt, Harold Ickes, and the Secretary of Agriculture - everybody is going to be discredited. I don't think anybody - we can't do it, and we can't look after fifty thousand, or we can't look after twenty-five thousand people. Now, if they want to throw the big in with the little, I say, let her go. I have done everything that I can, but the President said he is going to leave us frozen funds.

MR. FOLEY: O.K., that is all right.

H.M.JR: I don't see - I mean, he said to me, "I don't see what you want to bother with it for. I think you are silly to take on this thing." What?

MR. FOLEY: Well, I think maybe that is right.

H.M.JR: Well, you told me yourself - I mean, to sit there with the President, are you going to say, "Well, I want the big business, but I don't want the little ones"?

MR. FOLEY: It is an imposition and they ganged up on us, and under those circumstances, of course, we don't want it. We can't take all these little bits of properties and go in to the second-hand business and sell radios and automobiles that have been purchased on time. That is really what it is. It is a second-hand shop that they want us to run. Somebody has got to do it, but we are not equipped to do it, and I don't think that you as the Secretary of the Treasury ought to tarnish the Treasury's reputation with that sort of business, because it would be on our record, and it is nothing that we want to have anything to do with.

H.M.JR: That is right.

MR. FOLEY: I think that is right. And if we have to lose the other stuff in connection with it, I think we had better let it all go.

H.M.JR: And through Miss Grace Tully I got word from Hopkins that it was all right, I could have what's-his-name.

MR. FOLEY: Pike?

H.M.JR: Pike, and I should get in touch with the SEC and tell them so, but I am not going to do it, because if this thing is going to be taken away, why should we go and kick out Mack and then have somebody else come and put him back in and give the President an excuse?

(Discussion off the record.)

MR. FOLEY: O.K., that is all right.

H.M.JR: I don't see - I mean, he said to me, "I don't see what you want to bother with it for. I think you are silly to take on this thing." What?

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(Discussion off the record.)

February 27, 1942
3:15 pm

ALIEN PROPERTY CUSTODIAN

Present: Mr. Gaston
Mr. Bell
Mr. Schwarz
Mr. Kuhn
Mr. Foley

H.M.JR: I don't know how much you people know about this, but at Cabinet today the President raised the question, what the Army was doing in connection with moving the population, Japanese, German, and Italian, inland. As near as I could make out they were still in the planning stage. Then the question came, what were they going to do with them when they got them there, and you could see that neither Agriculture, who has Farm Security, or Paul McNutt really knew or anybody had talked about it. Everybody was up in the air. And then the President said to me, "Henry, I just don't know what you want to be bothering around with all these little businesses for, these little farms, " and I said, "Mr. President, I don't." He said, I don't think you should." I said, "We have got a going organization which is two years old, frozen funds, and I think we can take care of frozen funds and these big businesses," so he said, "Well, you should keep frozen funds and that, but this other stuff, I think, belongs to somebody else." So I said, "Well, why doesn't Farm Security look after the rural end and McNutt look after the city end?" and then Biddle, who through this whole thing was livid with excitement - I never saw a man so tense and so excited - I mean, his face was really purple. He said, "It is ridiculous to have a half dozen agencies handling this

thing. It must be handled by one person, and wouldn't the President call up the Director of the Budget and tell him so. The President said, "No, I am not going to tell him. You can call him up and tell him so." Well, the purpose of this conference is two-fold. One is to tell you about it. I have talked to Ed, and Ed himself told me that he didn't want to go into the second-hand business, and then there is anywhere from fifty to a hundred and fifty thousand that they want to move. War wants to move a hundred and fifty thousand people from the Island of Oahu off to some other island. So, we are talking about from two to three hundred thousand people. Ed knows no one has fought harder than I have to have the thing, and as a matter of fact, as of this moment, I am Alien Property Custodian and I have got all the authority that has been published. Well, seeing how the wind blows I just had Crowley over here, who was going to write a letter to the President as per agreement yesterday, saying he didn't want to be Alien Property Custodian, and I told him in fairness to him I wanted to have him know what could happen, so he didn't send the letter. Well, he said Biddle had just called up and given him hell, why hadn't he fought us. Biddle didn't tell him what had happened at Cabinet at all. So what I was thinking of is - there are five of you - that we have Schwarz tell the newspaper men that persons high in the Treasury have been receiving telegrams from Congressman Tolan, and in view of this situation and the magnitude of the numbers and the smallness of the units, we in the Treasury are not equipped to handle this thing and don't want it, and it is something that really belongs between the Army and Social Security and Farm Security and the Department of Justice. Do you want to throw them in?

MR. FOLEY: I don't know what they have got to do with it.

H.M.JR: Nothing. All right. And then this story goes out so that it is in the paper tomorrow and - there are two things. The President will read it, and he will say, "Why did Henry talk?" That is one thing. Anyway, that takes the curse off the thing. I don't want the thing.

MR. GASTON: That means the custody of little businesses.

H.M.JR: Yes. Now, the President said frozen funds should stay in the Treasury.

MR. KUHN: Has anyone said that we want these little businesses?

MR. FOLEY: No.

H.M.JR: No, but Alien Property Custodian would mean that. The custodian of alien property.

MR. BELL: Well, where does that leave the thing, then, in the President's hands to do something with it?

H.M.JR: Yes.

MR. BELL: Which he apparently isn't equipped or isn't ready to do.

H.M.JR: Well, I gathered from the way they talked that they are going to appoint an outsider and create a separate agency.

MR. BELL: To handle just that?

H.M.JR: Well, I guess he would handle alien property, all alien property.

MR. FOLEY: That is right.

MR. BELL: That means he would take over the businesses too, whenever you take them over.

H.M.JR: Yes.

MR. BELL: Just as they thought at first, keep foreign funds, and then when they took over a business we could give them a general license to operate under.

MR. FOLEY: I think probably they have gone back to that, Dan. It is a combination of pressures in the

Government that - I mean, this alien property control is wanted outside the Treasury and they use this device in connection with the resettlement of all of these families in these strategic military areas as a means of smoking us out. Of course, we don't want that sort of thing, and rather than create a resettlement agency to plan this work and to do it logically and then delegate to that agency the authority to deal with property, vest the title to it, and sell the property of these people and give them relief, that are being resettled, they have used it as a device to take the alien property away from us. Well, if it is a question of our having to do that in order to keep alien property in the Treasury, I would rather give it up than to do that, because we are not - we just can't mar the Treasury's reputation with that sort of thing. You can't take property, automobiles, and Frigidaires, and things like that, that are bought on time, away from the little fellow, sell them, and then try to get the money back into his hands on the wholesale scale in quick order without having some scandals, and I don't think that the Treasury of the United States can subject itself to that sort of thing.

H.M.JR: Well, they didn't do that in the last war, did they?

MR. GASTON: I don't know why it should be done.

MR. BELL: No, they didn't take over all those things in the last war.

H.M.JR: Well, they didn't have mass movement, Herbert.

MR. GASTON: This matter of the mass movement concerns only the aliens, does it? It doesn't concern Americans, does it?

MR. FOLEY: Yes, it concerns citizens also, because you have got second-generation Japs that they are moving too, and you can't tell the difference between the citizens and the non-citizens. They are taking the people right out of whole areas and just moving them.

H.M.JR: They haven't done it yet, but that is what they are talking about. They didn't do that before. It is stimulated by the fact that they think this attack near Santa Barbara was done, they claim, from information from the shore, because the only place that they attacked - the place they attacked was the only place where there weren't guns.

MR. GASTON: This oil refinery?

H.M.JR: The only place that wasn't protected. Every other place along the coast was protected.

MR. BELL: And they knew just where to--

H.M.JR: Yes.

MR. GASTON: I am very much afraid that any statement that you put out might just simply confuse the situation and give an aspect of confusion and muddling to - which is, of course, true - to the Government's efforts. I would be afraid of it.

MR. KUHN: I don't see what good would be done. I think we would be washing our dirty linen in the press, and why should we do that? We create the impression of an inter-departmental squabble, which has appeared much too much in the papers anyway. Why should someone in the Treasury add to that?

MR. SCHWARZ: Backing away from it--

MR. BELL: Yes, all you are doing is crawling out from under.

H.M.JR: First.

MR. BELL: Yes, first. (Laughter.)

H.M.JR: O.K. That is enough, I won't argue.

FEB 27 1942

Dear Harry:

Thank you for commenting on my telegram to Congressman Tolan.

My telegram suggested the creation of a new agency to handle the problem of resettlement of persons evacuated from strategic areas only if one or more of the existing agencies of the Government handling similar social problems were not able to do the job.

I think that there are existing Government agencies qualified to deal with this social problem. For instance, the Farm Security Administration and other divisions of the Department of Agriculture could handle the removal of people from the farm lands, the sale of farm lands and other farm property, the employment of the agricultural labor, and the acquisition of new farm lands in interior points. The Federal Security Agency and its subdivisions could handle the removal of people from the urban areas, the obtaining of employment for them, and the sale of their properties and furnishings.

My basic point is that national defense migration is a domestic social problem to be handled by the agencies of the Government set up for that purpose and not to be handled by the Government agencies charged with waging economic warfare, which is the essential purpose of the Trading with the enemy Act.

Sincerely,

Mr. Harry Hopkins,

The White House.

DD/ma - 2/26/42

February 26, 1942

Message from Harry Hopkins

I think the problem which Congressman Tolan raises may become a very important one. The Federal Government is undoubtedly the only agency which has the power to look after these houses. I realize, of course, that you have no power to do anything about the house of a citizen. I think the weakness in your telegram is the last paragraph because you advise the Congressman that we have to create a new agency to handle the problem that is immediately urgent.

Treasury Department
Division of Monetary Research 18

Date March 2, 1942

To: Miss Chauncey

From: L. Shanahan

Copy of Ecuadoran agreement

as signed February 27th, 1942.

AGREEMENT made as of the 1st day of March, 1942, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), and the Government of the Republic of Ecuador (hereinafter called Ecuador).

WHEREAS, the monetary and financial cooperation of the United States of America and the Republic of Ecuador and the stabilization of the United States dollar-Ecuadoran sucre rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries;

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. The Secretary shall, as hereinafter provided, purchase Ecuadoran sucres from Ecuador from time to time as requested by Ecuador, the United States dollars paid therefor to be used exclusively for the purpose of stabilizing the exchange value of the Ecuadoran sucre with respect to the United States dollar. The total amount of sucres thus purchased by the Secretary, computed at the rate at which such sucres are purchased as hereinafter provided, exclusive of accrued interest thereon and of any sucres repurchased, shall not at any time exceed in the aggregate the equivalent of United States $5,000,000. The sucres so purchased shall be deposited in the form of sucre currency notes in the Treasury of Ecuador in a special account to the credit of the Federal Reserve Bank of New York as Fiscal Agent of the United States (hereinafter in its capacity as Fiscal Agent of the United States called the Federal), to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States" (hereinafter referred to as Special Account T), or shall be credited to such an account in the Banco Central del Ecuador (hereinafter referred to as Special Account B). Upon receipt by the Federal Reserve Bank of New York of advice from Ecuador, in accordance with tested arrangements agreed upon between the Secretary and Ecuador, that a stated amount of sucres has been deposited in or credited to Special Accounts T or B, the Federal will in turn, in payment

fer, credit Ecuador in a special account to be opened by the Federal in the of "Government of the Republic of Ecuador, Special Account", in an amount nited States dollars equivalent, at the then prevailing official buying of the Banco Central del Ecuador for cable transfers on New York payable nited States dollars, to the amount in sucres deposited in or credited to ial Accounts T or B.

2. Ecuador shall deposit interest in the form of sucre currency notes Special Account T or instruct the Banco Central del Ecuador to credit interest Special Account B on the last day of each successive month from and after the ate hereof. Such interest shall be paid only on the daily balance of such cres in such Special Accounts as were purchased by the Secretary under this greement, and shall be computed at the rate of 1-1/2% (one and one-half percent) per annum. There may be reconsideration of the interest rate at any eeting provided for in paragraph 9 of this Agreement.

3. (a) One hundred and eighty days after the receipt of notice from the Secretary containing such request, Ecuador shall repurchase, or cause to e repurchased, during the next succeeding three hundred and sixty days, in nited States dollars, by payments at the Federal Reserve Bank of New York, y or all of the sucres purchased by the Secretary at the same rate or rates exchange at which such sucres were purchased. Such sucres shall be repur- ased during such three hundred and sixty days in such amounts so that at the d of any thirty-day period the total amount of sucres so repurchased shall t be less than would have been repurchased if Ecuador had been repurchasing e sucres in twelve equal installments during such three hundred and sixty-day period.

(b) Whether or not such a request has been made by the Secretary, sucres in the amount of such accrued interest shall be purchased or caused to be purchased by Ecuador by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the average rate of exchange at which the sucres, upon which such interest has accrued, were purchased by the Secretary.

(c) The aforementioned Special Accounts, the sucres deposited therein or credited thereto (including interest), and all transactions respecting such accounts, and the other obligations of Ecuador under this Agreement shall, in so far as the rights, powers, and privileges of the United States and the Secretary may thereby be affected, be exempt and immune from any taxes, fees, charges, restrictions, and controls of any nature under the laws of Ecuador or any political subdivision or taxing authority thereof; except to the same extent that any taxes, fees, charges, restrictions and controls of any nature under the laws of the United States or any political subdivision or taxing authority thereof affecting the rights, powers, and privileges of Ecuador are imposed upon the "Government of the Republic of Ecuador, Special Account", or the dollars credited thereto, or any transactions respecting such account, or other obligations of the Secretary under this Agreement.

4. Ecuador may also at any time repurchase the sucres described in paragraph 3 by payments at the Federal Reserve Bank of New York in United States dollars at the rate of exchange provided in paragraph 3.

5. In the event of any failure to repurchase (or, in the case of interest, purchase) the sucres as provided in paragraph 3 or of any other act, done or omitted, not in accordance with the provisions of this Agreement, Ecuador shall, if and when the Secretary so elects by giving notice to Ecuador to such effect, become forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the sucres at a total purchase price in United States dollars determined as provided in paragraph 3 by payment at the Federal Reserve Bank of New York and the dollars remaining in the "Government of the Republic of Ecuador, Special Account" shall be retained by the Federal and applied by the Secretary or the Federal as a payment on account of such purchase price. No failure or delay on the part of the Secretary in exercising any of his rights, powers, or privileges, in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers, or privileges granted to the Secretary under this Agreement; and no failure or delay

on the part of Ecuador in exercising any of its rights, powers or privileges, in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to Ecuador under this Agreement.

6. The Federal Reserve Bank of New York, as Fiscal Agent of the United States, will act for the Secretary in carrying out this Agreement. It is understood that the Federal Reserve Bank of New York will act only as Fiscal Agent of the United States in so carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of sucres under this Agreement or relating to any account operated in accordance with this Agreement which is received by the Federal in the name of Ecuador or its fiscal agent and which is believed by the Federal to be genuine, and upon any cablegram, radiogram, or telegram relating to the foregoing which is received by the Federal in the name of Ecuador or its fiscal agent and which conforms to existing or future arrangements agreed upon between Ecuador or its fiscal agent and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between Ecuador or its fiscal agent and the Federal with regard to the authentication of cablegrams, radiograms, or telegrams by the use of test numbers, and all such writings, cablegrams, radiograms, and telegrams shall be binding upon Ecuador and its fiscal agent.

7. In carrying out this Agreement Ecuador may designate the Banco Central del Ecuador as its fiscal agent provided that Ecuador shall give the Secretary written notification of such designation before the Banco Central del Ecuador acts in such capacity under this Agreement.

8. Any notice given by the Secretary to Ecuador or to the Banco Central del Ecuador, if acting as Fiscal Agent of Ecuador in carrying out this Agreement, shall be deemed and taken as full notice to Ecuador, and such notice may be given by the Secretary to Ecuador at the office of the Minister

of Finance of Ecuador at Quito, Ecuador, to the Ecuadoran Embassy at Washington, D. C., or to the Banco Central del Ecuador at its head office in Quito, Ecuador, if acting as Fiscal Agent of Ecuador under this Agreement.

9. Ecuador and the Secretary agree that at periodic intervals of approximately six months from and after the date on which this Agreement becomes effective (the precise dates to be agreed upon) there shall be held a consultative meeting to be attended by the representatives of each of such parties to discuss and consider the United States dollar-Ecuadoran sucre rate of exchange, problems of mutual interest in connection therewith, and all other monetary, financial, and economic problems of mutual interest.

10. Ecuador agrees that, without providing the Secretary with an opportunity for consultation, no substantial change in the effective United States dollar-Ecuadoran sucre rate of exchange will be made.

11. Ecuador agrees that the dollars made available under this Agreement will be used as a revolving fund for the stabilization of the exchange value of the Ecuadoran sucre with respect to the United States dollar, and that due diligence will be exercised to prevent the permanent exhaustion of the fund. In particular, Ecuador agrees to take all reasonable measures to prevent unwarranted internal currency and credit expansion such as would cause an undue drain on the dollars made available hereunder. Ecuador further agrees to exercise or cause to be exercised such diligence as will avoid, so far as possible, any undue delay in payments for imports from the United States or in other remittances to the United States.

12. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to effectuate the purposes and intent of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement.

13. Any obligation of the Secretary pursuant to this Agreement shall be subject to and dependent upon the due performance by Ecuador of any

obligations to be performed or liabilities to be discharged by Ecuador under this Agreement and any arrangements made pursuant thereto.

14. Any obligation of the Secretary to purchase sucres under this Agreement shall terminate on June 30, 1943, subject to earlier termination at any time thirty days after receipt by Ecuador of a written notice from the Secretary to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers, or privileges of the Secretary, or any of the duties, liabilities, or obligations of Ecuador hereunder, all of which shall continue in effect until Ecuador shall have fully performed its said duties and obligations and discharged said liabilities. If an extension or extensions of the Agreement are agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that Ecuador wishes an extension of this Agreement, it will give the Secretary notice to that effect in writing or by cable at least thirty days prior to the termination of the Agreement or of any extension thereof.

15. This Agreement shall come into operation and effect as between the parties hereto when Ecuador shall file with the State Department of the United States appropriate documents satisfactorily evidencing the authority of Ecuador to enter into this Agreement or satisfactorily evidencing ratification of the action of Ecuador in entering into this Agreement. Ecuador represents and agrees that upon the delivery of the aforementioned documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all acts, conditions, and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees, and regulations of Ecuador, and in conformity therewith.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

Henry Morgenthau Jr.
SECRETARY OF THE TREASURY OF THE UNITED STATES

GOVERNMENT OF THE REPUBLIC OF ECUADOR

By C. Elizalde
Ambassador Extraordinary and Plenipotentiary

By E. Talamo
Minister-Counselor to the Embassy

February 27, 1942
3:54 p.m.

HMJr: I thought that you'd be pleased to know that we just signed the Ecuador Stabilization.

Sumner Welles: Oh, thank you very much. That's good news that's going to help a great deal, Henry. I'm awfully grateful to you for your personal interest in it.

HMJr: I think we broke all speed records.

W: Well.

HMJr: They seem to feel that way.

W: I think it's amazingly quick, and I'm really very grateful. I think it will stabilize that situation.

HMJr: Well, I feel you did all you could down there, and it's up to all of us to back you up.

W: Well, a thousand thanks to you. You always do.

HMJr: Try to, anyway.

W: Thank you, Henry, very much.

HMJr: Good-bye.

W: Good-bye.

February 27, 1942.

Dear Col. Greenbaum:

The Secretary has handed me your memorandum of February 17 and Col. Reynolds memorandum of February 12 in regard to David Percy Morgan.

I have already taken advantage of Mr. Morgan's services in connection with obtaining adequate personnel for General Aniline & Film, and appreciate your bringing him to our attention.

Sincerely yours,

(Signed) Ed

Colonel Edward S. Greenbaum
Ordnance Department
New War Department Building
21st and Virginia Avenue
Washington, D. C.

EHF:mp 2/27/42

WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

February 17, 1942

MEMORANDUM To Sec. Morgenthau

The attached memorandum from Colonel Reynolds in regard to David Percy Morgan is submitted for your consideration in connection with the General Aniline and Film Corporation matter.

Edward S. Greenbaum mp

Edward S. Greenbaum
Colonel, Ord. Dept.

Encl.

PERSONAL

WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

February 12, 1942

MEMORANDUM FOR: Colonel B. S. Greenbaum

SUBJECT: D. P. Morgan

1. Reference is made to a letter which has been written for the signature of the Under Secretary of War and the Under Secretary of Navy requesting Secretary Morgenthau to place an American of unquestioned integrity into the General Aniline and Film Company as Manager.

2. David Percy Morgan was born in New York City about 1894 and attended Middlesex School and Harvard College where he was Captain of the Crew. He served in the United States Navy in the last war and later took his doctor's degree in Chemistry and is recognized in the field of chemical engineering as a highly trained technical man. He has been a partner of the firm of Scudder, Stevens and Clark for some years in charge of all investment counsel matters pertaining to the chemical industry. He is widely known both here and abroad by the executives of leading companies in that field.

3. It is felt that Morgan might be offered the job as General Manager of the General Aniline and Film Company. If it is felt that he is occupying a position of such importance now that he cannot be released, he could unquestionably name someone who would be qualified to fill the position.

R. G. Reynolds

R. G. REYNOLDS,
Lt. Col., Ord. Dept.,
Chief, Plant Protection Div.

FEB 27 1942

Dear Herbert:

Thank you for your letter of February 23 in regard to Peter Kiernan.

I shall be happy to consider him along with others in connection with our efforts to secure competent management of known loyalty for General Aniline and Film Corporation.

I am very glad you brought his name to my attention.

Sincerely yours,
(Signed) Henry

Honorable Herbert H. Lehman
Governor of New York
Albany, New York

S. 7L
EHF:s 2-26-42

File in M.C
Orig.
Phone file to Selby

STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY

HERBERT H. LEHMAN
GOVERNOR

February 23, 1942.

PERSONAL

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

Dear Henry:

Peter Kiernan of Albany came to see me yesterday to say that if the government intends to appoint administrators to operate the plant of the General Aniline and Film Corporation in Rensselaer, he would be very glad indeed to be considered.

I am sure that you know Peter Kiernan. He is one of Albany's leading citizens, an excellent business man, and a very hard worker. If you are considering an administrator or administrators to operate this plant, I can heartily recommend him to your consideration.

Very sincerely yours,

Herbert H. Lehman

STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY

HERBERT H. LEHMAN
GOVERNOR

February 23, 1942.

PERSONAL

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

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Very sincerely yours,

Herbert H. Lehman

FEB 27 1942

My dear Mr. Forrestal:

I wish to thank you for the letter of February 17, 1942, signed by you and Under Secretary of War Patterson enclosing a memorandum from the Provost Marshal General of February 11, 1942, relating to the General Aniline & Film Corporation.

I am very happy to find that my own views on handling the General Aniline & Film matter are so much in accord with the views and recommendations of the Navy and War Departments.

The Treasury Department is going forward with a program of Americanizing the General Aniline & Film Corporation. There are enclosed copies of an Order and press release issued on February 16, 1942, vesting in the Secretary of the Treasury 97 per cent of the outstanding stock of the General Aniline & Film Corporation.

When we have secured the services of a directing head for General Aniline I shall let you know and I shall also keep you informed from time to time of further steps which we are taking to carry forward the program of Americanizing the company.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. James V. Forrestal

Under Secretary of the Navy.

H.M.C.
By Messenger Stephens 3:15

Enclosures

Ed:HMF:vls - 2/27/42

FEB 27 1942

My dear Mr. Patterson:

I wish to thank you for the letter of February 17, 1942, signed by you and Under Secretary of the Navy Forrestal enclosing a memorandum from the Provost Marshal General of February 11, 1942, relating to the General Aniline & Film Corporation.

I am very happy to find that my own views on handling the General Aniline & Film matter are so much in accord with the views and recommendations of the War and Navy Departments.

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When we have secured the services of a directing head for General Aniline I shall let you know and I shall also keep you informed from time to time of further steps which we are taking to carry forward the program of Americanizing the company.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert P. Patterson

Under Secretary of War.

N.M.C. Hopkins
By messenger 5:15

Enclosures.
BB:EHF/mp 2/27/42

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, February 16, 1942.

Press Service
No. 30-33

The Treasury Department announced today the vesting in the Secretary of the Treasury of 97 percent of the outstanding shares of General Aniline and Film Corporation of Delaware. In the judgment of the Secretary of the Treasury the real interest in these shares is German.

The shares seized were registered in the names of I. G. Chemie Osmon Aktiengesellschaft, Maatschappij voor Industrie en Handelsbelangen, Chemo Maatschappij voor Chemische Ondernehmungen, Eidgenossische Bank, and two individuals,, the late Geheimrat Professor Dr. Carl Bosch, former chairman of the Board of the German Dye Trust and Geheimrat Dr. Hermann Schmitz, present chairman of the Board of the German Dye Trust.

The purpose of the Treasury Department in vesting these shares was to carry forward recent steps to Americanize the company and better utilize the productive facilities of the company in the war effort. General Aniline and Film Corporation employs 8,000 persons, does about 60 million dollars of business annually and manufactures many products needed in the war effort.

Today's action also is intended to protect the investment of the American bondholders of General Aniline and Film Corporation. The Secretary of the Treasury disclosed that while over ninety-five percent of the common and preferred stock of the Corporation was foreign owned, yet approximately ninety-five percent of the outstanding bonds and debentures of the Corporation are held by the American public. Outstanding debentures approximate $18,000,000 and are guaranteed by the German I. G. Farben Company.

In announcing the vesting, the Treasury Department stated specifically that the question of ultimate disposition of the property sequestered is being left open and that claims may be filed with the Secretary of the Treasury.

Regulations providing an orderly determination of such claims have also been issued today.

-oOo-

VESTING ORDER PURSUANT TO SECTION 5(b) OF THE TRADING WITH THE ENEMY ACT, AS AMENDED.

I, HENRY MORGENTHAU, JR., Secretary of the Treasury, acting under and by virtue of the authority vested in me by the President pursuant to section 5(b) of the Act of October 6, 1917, as amended by section 301 of the First War Powers Act, 1941, finding after investigation that the following shares of the stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, are the property of nationals of a foreign country designated in Executive Order No. 8389, as amended, as defined therein, and that the action herein taken is in the public interest, do hereby order and declare that such shares including all interest therein are hereby vested in the Secretary of the Treasury to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States:

Certificate Number	Number of shares	Class of shares	Registered in the name of
027	1,500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.
028	500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.
023	1,500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
029	500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany

0656	20,000	A)	Osmon Aktiengesellschaft, Schaffhausen, Switzerland
0657	10,000	A)	
0658	10,000	A)	
0659	10,000	A)	
0660	5,000	A)	
0661	5,000	A)	
0662	5,000	A)	
0663	500	A)	
0664	500	A)	
0665	500	A)	
0720	132	A)	
022	300,000	A)	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
137	100	A)	
061	50	A)	
065	90	A)	
092	726	A)	
095	500	A)	
0568	10,000	A)	
0569	10,000	A)	
0570	10,000	A)	
0571	10,000	A)	
0572	10,000	A)	
0573	10,000	A)	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
0574	5,000	A)	
0575	5,000	A)	
0576	5,000	A)	
0577	5,000	A)	
0578	5,000	A)	
0579	1,000	A)	
0580	1,000	A)	
0581	1,000	A)	
0582	350	A)	
BB13	650,000	B	L.D. Pickering & Company in custody for N. V. Maatschappij voor Industrie en Handelsbelangen, Amsterdam, The Netherlands
32	100,000	B)	N.V. Maatschappij voor Industrie en Handelsbelangen, Amsterdam, The Netherlands
33	100,000	B)	
34	100,000	B)	

1 20	400,000 200,000	B) B)	Chemo Maatschappij voor Chemische Ondernehmungen, Amsterdam, The Netherlands
4	500,000	B	Banque Federale (Eidgenossische Bank, A.G.), Zurich, Switzerland

Such property and any proceeds thereof shall be held in a special account pending further determination of the Secretary of the Treasury. This shall not be deemed to limit the power of the Secretary of the Treasury to return such property or the proceeds thereof, or to indicate that compensation will not be paid in lieu thereof, if and when it should be determined that such return or compensation should be made.

Any person not a national of a foreign country designated in Executive Order No. 8389, as amended, asserting any interest in said shares of stock or any party asserting any claim as a result of this Order may file with the Secretary of the Treasury a notice of his claim, together with a request for hearing thereon, on Form TFVP-1 within one year of the date of this Order, or within such further time as may be allowed by the Secretary of the Treasury.

This Order shall be published in the Federal Register.

By direction of the President:

H. MORGENTHAU, JR.
SECRETARY OF THE TREASURY.

February 16, 1942.

February 18, 1942

Copy

My dear Mr. Queeny:

I am enclosing for your information a copy of a letter which I have written to Mr. Charles Belknap, Executive Vice President of your company. I am sure that you and Mr. Belknap will agree with me that in times like these all citizens have a duty to their country to serve where they can most effectively help in the war effort. I believe that Mr. Belknap can perform an invaluable service to his country by accepting the presidency of the General Aniline and Film Corporation, the great majority of whose stock is now vested in the Secretary of the Treasury.

I hope that it will be possible for you to encourage Mr. Belknap to accept this position and for your company to give him a leave of absence for an indefinite period of time. In this way you can help me carry out an important program that is so vital to our war effort.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Edgar M. Queeny
President, Monsanto Chemical Company
St. Louis, Missouri

Enclosure

H. M. C

FEB 18 1942

My dear Mr. Belknap:

As you know, 97 per cent of the outstanding shares of the General Aniline & Film Corporation has been vested in the Secretary of the Treasury. In my judgment the real interest in these shares has been in the German Dye Trust.

The purpose of the Treasury Department in vesting these shares was to carry forward steps to Americanize the company and better utilize its productive facilities in the war effort. As you know, the company is one of the country's leading producers of much needed dyestuffs and film. It is the view of the War, Navy and Treasury Departments that unless immediate steps are taken to eliminate the I. G. Farben control that has dominated the General Aniline & Film through stock holdings, key personnel and patent and other contractual arrangements, this Government will not be able to make the full and effective use of the General Aniline & Film Company that the necessities of the war require.

The Government considers it essential to the success of this program that there be installed at once in this company as its directing head a man who has not only unquestioned integrity and patriotism but also enjoys the highest reputation as an experienced business executive in the chemical field. I am confident that you as a former Naval officer and as an important executive in chemical companies for more than twenty years possess these qualifications in an outstanding degree. I am calling on you to accept this important assignment in the country's war effort.

I hope that you will be able to arrange a leave of absence from your present position and take over the presidency of the General Aniline & Film Corporation at your present salary.

In view of the urgency of the matter, an immediate answer by wire or air mail letter will be appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Charles Belknap,
Executive Vice President,
Monsanto Chemical Company,
1700 South Second Street,
St. Louis, Missouri.

n.m.c.

February 27, 1942

TO: Mr. Foley

FROM: The Secretary

In view of Mr. Bernard's report on the investigators assigned to General Aniline & Film Corporation, what are you going to do about it? Why shouldn't we have only first-class investigators and not mediocre ones?

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 26, 1942.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

I am attaching Larry Bernard's report on his interviews with the investigators assigned from the various Treasury investigating units to the General Aniline & Film Corporation.

You will note that Bernard concludes that in his opinion all of the investigators are loyal; however, only about eleven of the twenty are adequate from the standpoint of competence.

Sam Klaus collaborated with Bernard in this work and would, I believe, concur in the report if he were in town.

E.H.F.

Attachment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1942.

TO Mr. Foley

FROM Mr. Bernard

In accordance with your instructions, I went to New York last Wednesday night and spent Thursday, Friday, and Saturday checking up on the investigators detailed to Mr. O'Connell to make investigations of the personnel of the General Aniline and Film Company.

During the course of my investigation I spent at least 30 minutes talking with each of the following investigators who are assigned to Mr. O'Connell:

Morgan Thome	Joseph E. Lennon
Thomas M. Leary	Martin Lemler
Carmie A. Thompson	Frank Mealy
Barratt O'Hara	James A. Austin
John J. Aufenanger	Albert O. Steckman
James A. Dickison	Eugene J. Kaplan
William Honkala	Arthur J. Blank
F. Dale McClanahan	A. Marvin Block
Max Stein	Albert W. Joyce
Bernard V. Pfeiffer	Joseph J. O'Dea

The questions which I asked the men were designed to satisfy me as to their loyalty, honesty, and competence. Among other things, the questions which I asked of each man related to the following matters: his name and address, place of birth, citizenship, the birthplace of his parents and if they were foreign-born the facts concerning their naturalization, his marital status, whether he had ever been outside of the United States, whether he had friends or relatives in a foreign country, whether he corresponded with anybody in any foreign country, the basic facts concerning his education and experience, the organizations to which he belonged, the facts relating to his income and assets and liabilities, whether he filed income taxes, whether he was active in politics, his military record, if any, whether he had ever been sued, whether he had ever been arrested, and whether charges had ever been preferred against him during the period of his Government service.

I also asked each man what he was doing in his present assignment, who he was working with, how he was going about doing his job, and who was supervising his work.

On the basis of my investigation, I am satisfied that all of the men are loyal and honest. However, I am doubtful that all of the men are capable personnel investigators. A number of them have had very limited experience in the field and I question whether they have the general all-around ability which would enable them to develop into capable personnel investigators.

Of the men listed above, I consider Thoma, O'Hara, Lemler, Stein, Pfeiffer, Block, Mealy, Austin, Dickison, McClanahan, and Aufenanger to be adequate for the job. The balance of the men are, in my opinion, of mediocre caliber.

I took rather detailed notes of my interviews, and if you wish detailed information about any of the men I shall be glad to give it to you.

JGB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 27 1942

Secretary Morgenthau

E.H. Foley, Jr.

Thurman Arnold has been discussing with me the use by the Treasury of freezing control powers to cooperate with the Anti-Trust Division's program for the destruction of international cartel arrangements having the effect of restricting the production in this country of strategic and critical materials. He has furnished us with material indicating the types of cases he is interested in.

In particular, he has asked for our prompt cooperation in the following two cases:

1. The Magnesium Company is owned 50 percent by the Aluminum Company and 50 percent by I. G. Farben. The Magnesium Company cannot sign a proposed consent decree terminating a cartel arrangement without the approval of the three directors representing the I. G. Farben stock. The Aluminum Company would like to have the Treasury vest the Farben stock and then have Treasury directors vote in favor of the Magnesium Company signing the consent decree.

2. The Standard Oil Company is willing to sign a consent decree terminating its cartel arrangement with I. G. Farben covering the production of synthetic rubber. Thurman Arnold feels that it would help in the situation if the Treasury would vest in itself whatever rights I. G. Farben has in synthetic rubber patents and together with Standard Oil work out a program for the granting of licenses to produce synthetic rubber.

I think that there is an opportunity for the Treasury to do a real service in this area. There is a possibility of big business and conservative interests in and out of the Government being critical of the Treasury as well as the Anti-Trust

division for working out such a program, although there is also the likelihood that no one would dare, at least openly, to criticize the vesting of German interests in patents and the making of such patents more generally available in the war production program.

During the last war German-owned patents in the United States were licensed to American producers and were also vested in the Alien Property Custodian. There was considerable scandal associated with the sale of the patents. I am confident that we will not repeat the scandals.

If you approve, I will try to work out a program of cooperation with Thurman Arnold.

E.N.-74.

Approved:

F.D.R.Jr.

FEB 27 1942

Excellency:

Thank you for conveying to me the generous remarks of the Chancellor of the Exchequer.

I too am gratified that the Lend-Lease Agreement has been signed, and I hope that it will prove to be an important step toward collaboration in the solution of post-war problems.

Please express to the Chancellor my deep appreciation of his cooperation in the matter.

Yours respectfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,
The Ambassador of Great Britain,
Washington, D. C.

By Messenger Hoffman 5.15
copies to Mr. White

HDW
HDW:bmb
2/25/42

BRITISH EMBASSY
WASHINGTON, D.C.

23rd February, 1942.

PERSONAL

My dear Mr. Morgenthau,

I have been asked to convey to you the following message from the Chancellor of the Exchequer.

"You will now have heard that Lord Halifax has now been instructed to sign the Lend-Lease Agreement in its present form.

This will, I feel, surely enable us to make progress on many aspects of our collaboration.

It is a matter of great satisfaction to me that this matter has been satisfactorily settled and I am very conscious of the part you have played in bringing about this result. During discussion on this subject in the War Cabinet I had your message very much in mind. Once again many thanks for your help and advice."

Yours sincerely,

Halifax

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Shipments of Planes to British Forces

1. In the week ending February 24, a total of 129 planes of all types (1 trainer) were shipped to British forces.

2. In 1942, the United Kingdom appears to be concentrating on the import of pursuit planes. In the eight weeks of 1942, 221 pursuit planes were shipped to England and only 31 planes of other types. In the whole year 1941, on the other hand, England received only 311 American fighters, while she was receiving 1,228 bombers and 468 aircraft of other types.

3. The first export of a Lockheed Lightning fighter (our P-38) is reported this week with the delivery of three to England. The Lightning is a two-motor single-seater. It carries in its nose four machine guns and a cannon. It is supposed to have a top speed of around 400 miles per hour.

Table A - Shipments by Area

	Week Ending Feb.24,1942		Total Shipped in 1942 to date		Total Shipped since Jan.1,1941	
To the United Kingdom						
Light and medium bombers	1		3		1,127	
Heavy bombers	0		0		104	
Naval patrol bombers	2		7		109	
Pursuit	74		221		532	
Army Cooperation	1		21		52	
Trainers	0		0		24	
Total to the United Kingdom		78		252		1,948
To the Middle East						
Light and medium bombers	6		96		426	
Heavy bombers	0		0		5	
Pursuit	12		149		997	
Army Cooperation	6		6		6	
Trainers	0		8		150	
Total to the Middle East		24		259		1,584
To the Canadian Forces						
Light and medium bombers	0		1		55	
Naval patrol bombers	0		11		19	
Pursuit	0		28		70	
Trainers	1		125		1,299	
Total to Canadian Forces		1		165		1,443
To the Forces in Russia						
Light and medium bombers	9		29		73	
Pursuit	0		0		49	
Total to Russian Forces		9		29		122
To the British Pacific Forces						
Light and medium bombers	17		17		112	
Naval patrol bombers	0		0		27	
Pursuit	0		0		168	
Trainers	0		0		105	
Total to Pacific Forces		17		17		412
Total						
Light and medium bombers	33		146		1,793	
Heavy bombers	0		0		109	
Naval patrol bombers	2		18		155	
Pursuit	86		398		1,816	
Army Cooperation	7		27		58	
Trainers	1		133		1,578	
Totals		129		722		5,509

Table B - Shipments by Types

	Week Ending Feb. 24, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
Bell Airacobra	31	66	220
Boeing B-17	0	0	20
Boston III	0	13	52
Brewster Buffalo	0	0	168
Cessna T-50	0	86	634
Consolidated Catalina	2	18	155
Liberator	0	0	89
Curtiss Kittyhawk	12	179	561
Tomahawk	0	0	593
Douglas Boston I and II	0	0	82
Boston III	9	16	455
Fairchild 24 R-9	7	18	40
Glenn Martin Baltimore	7	98	166
Maryland	0	0	150
Grumman Martlet II	0	5	46
Lockheed Hudson	17	19	838
Lightning	3	3	3
North American Harvard II	1	47	944
Mustang	40	145	225
Pitcairn Autogiro	0	0	5
Vought Sikorsky Chesapeake	0	0	50
Vultee Stinson-049	0	9	13
Grand Total - All Types	129	722	5,509

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Table C - Plane Shipments to the British by Weeks

Week Ended	Light and medium bombers	Heavy bombers	Naval patrol bombers	Pursuit	Army Cooperation	Trainers	Total
Weekly Average of shipments in 1941	32	2	3	27	1	28	92
January 6, 1942	24	0	5	30	4	9	72
January 13, 1942	3	0	2	58	0	42	105
January 20, 1942	8	0	0	14	0	60	82
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	33	0	3	59	0	4	99
February 17, 1942	12	0	2	41	7	0	62
February 24, 1942	33	0	2	86	7	1	129
Total shipments since January 1, 1941 to date	1,793	109	155	1,816	58	1,578	5,509

CONGRESS OF THE UNITED STATES
JOINT COMMITTEE ON REDUCTION OF
NONESSENTIAL FEDERAL EXPENDITURES

There will be a meeting of the Joint Committee in Room 314 Senate Office Bldg., on Friday, Feb. 27, at 10 a.m.

To hear Dean Landis

Referred to Bell

Heffelfinger
Attended

HARRY FLOOD BYRD,
Chairman.

GPO 65558

TREASURY DEPARTMENT

WASHINGTON

February 27, 1942.

MEMORANDUM ON MEETING OF THE JOINT

COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:00 A. M., Friday, February 27, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:
- Byrd
- Glass
- McKellar
- Nye

Congressmen:
- Doughton
- Treadway
- Taber

Bureau of the Budget:
- Mr. Lawton

General Accounting Office:
- Mr. Tyler

Office of Civilian Defense:
- Mr. Landis
- Mr. Corrington Gill

Senator Tydings attended the meeting and was permitted by the Committee at the end of the session to interrogate Mr. Landis.

Senator Byrd opened the meeting by referring to a list of employees submitted by Mr. Landis in reply to Senator Byrd's request. The list was received by the Committee on February 20 and showed the employees of the OCD as of February 11, the date on which Mr. Landis took office. Senator Byrd pointed out that the name of Miss Chaney was not on the list. Mr. Landis could not understand how this name had been omitted.

In reply to a question Mr. Landis pointed out that the OCD was created by Executive Order of the President; that as Director of the organization he reports directly to the President, and that the office obtains its operating funds by appropriations of the Congress. He pointed out that prior to the availability of appropriations the organization functioned under allocations by the President from his emergency fund. Total expenditures to date on an annual basis for personnel amount to $1,479,260 and total actual expenditures to January 31, 1942 amounted to $365,692.00. Mr. Landis as a Special Assistant to the President receives compensation of $10,000 per year. It appears that there are 99 persons employed by OCD by detail from other departments. These employees are on a "non-reimbursable" basis.

TREASURY DEPARTMENT

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In other words, their salaries are paid by the agencies under which they are employed. The travel and subsistence expenses of these employees while performed on OCD work are paid by the OCD.

There was a general discussion between Senator Byrd and Mr. Landis as to particular persons employed in connection with the "Know Your Government" unit and the Office of Inspector General. Mr. Landis pointed out that these units had been abolished, some of the personnel dropped, and other personnel transferred to other offices in the OCD.

There was a discussion of compensation for volunteer workers and persons receiving $1.00 per year. Mr. Landis was asked to explain the duties of Melvin Douglas who is head of the "Arts Council" and was requested to submit for the record amounts paid to volunteer workers for subsistence and travel expenses.

Senator McKellar quoted a provision from the recently enacted Appropriation bill covering money appropriated to the OCD which prohibits the use of such appropriation for instructional activities and contended that Mr. Landis had stated that none of the money would be used for activities of this character. Mr. Landis explained that none of the appropriated money was being used contrary to the legal provision in the Appropriation Act, but that the same prohibitions were not contained in the money allocated to his organization by the President. Senator McKellar contended that Mr. Landis had broken faith with him and was operating contrary to the intent of Congress by not observing the prohibitions on allocated money as were contained in the Appropriation bill.

There was a general discussion of various activities carried on by the OCD and it was the consensus of the Committee members that Mr. Landis should abolish all frills in his organization and confine its activities to the basic problem of training the people in protective features necessary in the event of air raids. It was indicated that such units as the "Racial Relations Unit", "Physical Fitness Unit" and "Youth Activities" had no place in the OCD organization as contemplated by the Congress. Mr. Landis stated that he had given some consideration to this problem and did not believe that his organization was the appropriate one to carry on the Physical Fitness program and he understood that within a few days this section of the work would be transferred to some organization under Mr. McNutt.

There was further discussion as to the necessity for carrying on educational activities to teach people to dance or youth activities. Mr. Landis agreed that he could see no necessity for the continuance of a special section to deal with youth activities.

There was considerable discussion concerning the work done by various outstanding athletes who were carried on the rolls of OCD.

Senator Byrd asked Mr. Landis to explain what had been done by the organization in connection with air raid shelters, the use of sirens, and training people for protective activity. Mr. Landis stated that Mr. Nelson issued an order on January 15, 1942, stating that no material would be released for the construction of air raid shelters, but that other activities in connection with training people and obtaining fire equipment, etc., were going forward.

Senator Nye, using the information submitted to the Committee by OCD, referred to the general basis for staffing the organization. It appeared that most of the staff in a number of divisions were obtained from WPA, PWA, or other Government agencies. He pointed out one case of a person who is head of the Civilian Protection Section at $3800 per annum who had two years high school education and started his business career as a minor clerk in PWA in 1934 to 1936; from 1936 to 1938 he was soliciting life insurance, and in 1938 and 1939 he was employed by PWA and the Surplus Marketing Administration. Mr. Landis explained that naturally his organization tried to get competent personnel from Government organizations if it could do so.

In reply to a question by Congressman Treadway Mr. Landis pointed out the manner in which the OCD cooperated with State officials.

Congressman Doughton referred to the previous criticism of the OCD organization which had been widespread in the newspapers throughout the country and the effect which this criticism has had upon taxpayers and the sale of Defense bonds. He said that he has received a great number of complaints from persons against the needless extravagance of OCD.

Mr. Landis was requested by Senator Byrd to furnish for the record the amount of money spent for publicity and Senator McKellar asked that there be inserted in the record a complete accounting for money paid for travel and subsistence.

Senator Tydings then questioned Mr. Landis and asked how many persons in the organization were experts in handling bombs, etc., or experts in the necessary work to be done in case of an air attack. Senator Tydings pursued a number of questions along this line and presented pamphlets issued by OCD which he stated were prepared by various organizations in the War Department. The point which Senator Tydings made in his line of questioning was to the effect that the organization should be headed by a trained Army

man. He pointed out that Great Britain had started with a Civilian Defense organization but found it unsatisfactory and finally came to the point where the organization now comes under the Army Service. Senator Tydings said he was not urging that the entire organization be placed under Army supervision and maned by Army personnel, but that he favored an Army man as the acting head. He asked Mr. Landis if he would insert in the record a statement as to his opinion on this point.

Senator Byrd pointed out that Mr. Landis had told him he was now in the process of reorganizing the OCD and he asked how soon this reorganization would be completed as the Committee desired an opportunity to have Mr. Landis appear before it and explain what he had accomplished. Mr. Landis said he thought he could have something to report in about six weeks although the Committee thought he should accomplish something in thirty days.

There was a general expression of views by the members of the Committee in which they advised Mr. Landis that they had no intention to embarrass him personally and recognized that he took over an organization with two strikes on himself, but that they thought he should strip his organization of all non-essential activities.

The meeting adjourned at 12:40 P. M.

WY

FEB 27 1942

Honorable James M. Landis,
Executive Director,
Office of Civilian Defense,
Washington, D. C.

My dear Mr. Landis:

Further reference is made to your letter of January 23rd, with respect to the Community Planning and Organization Program of the Office of Civilian Defense.

Promptly upon receipt of your request, the various bureaus and divisions of this Department were directed to furnish copies of any reports, surveys, or other available material relating to social and industrial problems arising in local communities as a result of war activities. The functions of the Treasury Department do not, as you know, include activities which have direct contact with problems of the nature described in your letter. Because of this fact, the bureaus and divisions of the Department have not found it possible to submit any material such as would come within the scope of your request.

An interesting suggestion, however, has been submitted by the Procurement Division of this Department. Mr. Clifton E. Mack, the Director of Procurement, calls attention to the possibility of utilizing the Federal Business Associations in connection with the work of the Community Planning and Organization Program Division. As you will observe from the enclosed list, there are about one hundred of these Associations, located in the larger cities, the membership being composed of the heads or

principal officers of the various Federal agencies within the Association area.

The basic purposes of the Association are to develop inter-office relations, procedures, etc., and to handle special surveys or studies as assigned by the Director of Procurement. Because of their wide range of contact and the variety of information available within their membership, it is possible that these groups might be very helpful.

If you should decide that these Associations might be used advantageously in connection with the Community Planning and Organization Program, or in any other phases of your work, I shall be pleased to have the Director of Procurement either present the matter to the respective organizations, or arrange for their direct cooperation with representatives of the Office of Civilian Defense.

Sincerely,

(Signed) H. Morgenthau, Jr.

Enclosure

File to Thompson

crs/m

FEB 27 1942

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(Signed) H. Morgenthau, Jr.

Enclosure

File to Thompson

crs/m

STATE	CITY	PRESIDENT	SECRETARY
FLORIDA	JACKSONVILLE	W. EYSTER, U.S. IMMIGRATION AND NATURALIZATION SERV.	MRS. S.D. MACPHERSON, U.S. IMMIGRATION & NATURALIZATION SERVICE
	PENSACOLA	M. O. BRAWNER, POSTMASTER, PENSACOLA	JOHN J. OLSEN
	ORLANDO	J.D. BEGGS, POSTMASTER	H.A. MARKS, AGRICULTURAL STATISTICIAN, DEPT. OF AGRI.
GEORGIA	ALBANY	W.F. HILL, RAILWAY MAIL SERVICE, P.O. DEPT.	E.M. DEFFIENBACK, BU. OF ENTOMOLOGY, DEPT. OF AGRI.
	ATLANTA	LON F. LIVINGSTON, POSTMASTER, OLD P.O. BUILDING	FRANCIS SHURLING, DIRECTOR, OFFICE OF GOV'T. REPORTS (VICE PRES.)
	COLUMBUS	LEIGHTON W. MCPHERSON POSTMASTER	H. MORTON SIMMONS ASST. POSTMASTER
	MACON	GEO.A. CLARK, U.S. WEATHER BUREAU, P.O. BLDG., MACON, GEORGIA	P.O. CONNELL, CHIEF DEPUTY MARSHALL, DEPT. OF JUSTICE
HAWAII	HILO	BEN F. MOOMAW, JR. ASST. SUPT. OF NAT'L. PARK SERVICE	CONSTANCE WHITNEY, SECY. LOCAL BOARD OF CIVIL SERVICE EXAMINERS HAWAII NATIONAL PARK
	HONOLULU	HAROLD S. BURR DIRECTOR, SOCIAL SECURITY BOARD	S.D. PUTNAM, DISBURSING OFFICER, U. S. TREASURY DISBURSING OFFICE
IDAHO	BOISE	F. M. VAN MESTERA, ~~W. BUTTERFIELD, PROCUREMENT DIVISION TREASURY DEPT. 433 FEDERAL BLDG.~~ SUPERVISOR, FAYETTE NAT'L. FOREST	R.C. ROSS, AGRICULTURAL MARKETING SERVICE BU. OF AGRICULTURAL ECONOMICS, 302 FEDERAL BLDG. P.O. BOX 1778
ILLINOIS	CHICAGO	WM. D. CAMPBELL, U. S. ATTORNEY RM. 450 U.S. COURTHOUSE	C. C. SHIRLEY, PROPERTY MGR U. S. POST OFFICE, RM. 409
	LAKE-MCHENRY COUNTIES	DR. DELMAR GOODE VETERANS' FACILITY NORTH CHICAGO, ILL.	A.L. LEWIS, SOCIAL SECURITY BOARD
	PEORIA	M.L. FULLER, WEATHER BUREAU	C. E. HARTWIG, CUSTOMS CLERK BUREAU OF INTERNAL REVENUE
INDIANA	FORT WAYNE	G.J. GLADBACK, POST OFFICE	MR. IONE SCANLON, DEPUTY CLERK, U. S. DISTRICT COURT, FEDERAL BUILDING
	INDIANAPOLIS	GEO. J. ROSPETER, ASST. POSTMASTER ~~J. VAN SETT, SOCIAL SECURITY BOARD~~	CHAS. W. LEGEMAN, SOCIAL SECURITY BOARD
IOWA	CEDAR RAPIDS	F.B. BALDWIN, POSTMASTER	CHAS. M. CHADIMA
	DES MOINES	CHAS. D. REED SR. METEOROLIGIST, U.S. WEATHER BUREAU	MILDRED CANNON
	MASON CITY	A.J. SCHANKE, ACTING POSTMASTER	CHAS. E. PRICE, LOCAL SECRETARY, CIVIL SERVICE COMMISSION
	SIOUX CITY	M. K. TAYLOR, ASST. POSTMASTER	W. E. RENSHAW, CHIEF DEPUTY MARSHAL, DEPT. OF JUSTICE
KANSAS	HUTCHINSON	RALPH RUSSELL, POSTMASTER (PRES. & SECY.)	
~~KENTUCKY~~	~~LEXINGTON~~	~~C.E. HUTCHIN, MAJOR INFANTRY, U.S. ARMY~~	~~C.W. GROPPER, CLERK U.S. RECOUNT OFFICE WAR DEPARTMENT~~

OCTOBER 8, 1941

STATE	CITY	PRESIDENT	SECRETARY
ALABAMA	BIRMINGHAM	MARTIN C. FOLMAR, SOCIAL SECURITY BOARD	HARRIS F. JOHNSON PROCUREMENT DIVISION TREASURY DEPARTMENT.
ALASKA	NOME.	JUDGE J. H. S. MORISON, U.S. DIST. COURT, 2ND DIVISION	ROSWELL V. DOBBS
	SEWARD	C.A. SHELDON, POSTMASTER	E.L. SWEEK, AGENT FOR ALASKA RAILROAD, DEPT. OF INTERIOR
ARIZONA	DOUGLAS	R.O. COLLICH, BUREAU OF PLANT QUARANTINE, DEPT. OF AGRICULTURE	D. C. KIANE, BUREAU OF IMMIGRATION, DEPT. OF JUSTICE
	NOGALES	LAWRENCE S. ARMSTRONG AMERICAN CONSUL	A. J. HILLIKEN, U. S. IMMIGRATION AND NATURALIZATION SERVICE.
	TUCSON	FRANK J. LANDON, ASST. CUSTODIAN, CHIEF ENGINEER, P. O. BLDG.	ESTHER M. JOHNSON, SECY. TO DISTRICT PROBATION OFFICER, DEPT. OF JUSTICE
ARKANSAS	HOT SPRINGS	S. A. KEMP, POSTMASTER HOT SPRINGS, NAT'L PARK	J. R. BRADY, SUPT. OF MAILS, HOT SPRINGS NAT'L. PARK
	JONESBORO	J. A. HIELL, SUPT. OF MAILS, P. O. DEPT.	BRYAN THOMAS, NAVY RECRUITING SERVICE
	LITTLE ROCK	L.L. THORNHILL, STATE PROCUREMENT OFFICER OLD P. O. BLDG.	G. A. A. DEANE, OFFICE MGR. W.P.A.
CALIFORNIA	EAST BAY	RALPH H. SIMONS, ADM. ASST. OF BU. OF ENTOMOLOGY & PLANT QUARANTINE 610 SYNDICATE BLDG., OAKLAND, CALIFORNIA	
	FRESNO	FRANK W. CARDWELL ASST. POSTMASTER, FRESNO	WELTON C. RHODES DEPUTY U.S. MARSHAL
	LOS ANGELES	WM. JENNINGS BRYAN, JR. COLLECTOR OF CUSTOMS OFFICE OF THE COLLECTOR DIST. 27, LOS ANGELES	MERLE J. PETTIS 1438 P.O. & COURT HOUSE BLDG
	RIVERSIDE-SAN BERNARDINO	D. H. SIERY, SUPT. SHERMAN INSTITUTE RIVERSIDE	H. E. MITCHELL, PRINCIPAL CLERK, SHERMAN INSTITUTE
	SACRAMENTO	R.L. HOLLINGSWORTH POST OFFICE DEPT.	C. A. SEHREND U. S. ENGR. DEPT.
	SAN DIEGO	CAP. H.C. GEARING, U.S. NAVY, U.S. NAVAL TRAINING STATION	A.A. KUHLEN, U.S. NAVAL TRAINING STATION
	SAN FRANCISCO	FRANK P. ULRICH, COAST & GEODETIC SURVEY, 214 OLD MINT BLDG.	J. REED THORNTON, U.S. HOUSING AUTHORITY 505 BUSH STREET
COLORADO	DENVER	THOMAS L. GIRAUET BU. OF INTERNAL REVENUE	MRS. ELIZ. PETTUS FOREIGN TRADE SECY. BU. OF FOREIGN & DOMESTIC COMMERCE
CONNECTICUT	BRIDGEPORT	WM. O'DWYER, POSTMASTER FAIRFIELD, CONNECTICUT	A. F. BORGMAN, POST OFFICE BRIDGEPORT, CONN.
DELAWARE	WILMINGTON	MR. LUTHER L. STERNER DEPUTY COLL. OF CUSTOMS	MARGARET V. DONNELLY, MANAGER, BU. OF FOREIGN & DOMESTIC COMMERCE

1.

STATE	CITY	PRESIDENT	SECRETARY
NEW YORK	BUFFALO	GEO. W. EBERZ, U.S. TREAS. DEPT., BU. OF INTERNAL REVENUE, U.S. COURTHOUSE BLDG.	J.H. HUGHES, U.S. POST OFFICE, RM. 5, P.O. BLDG.
	NEW YORK	ALBERT COLEMAN, POSTMASTER	JOHN W. LYNCH, ASST. POSTMASTER
	ROCHESTER	FRANK GALLAGHER, ASST. COLLECTOR OF CUSTOMS TREASURY DEPT.	JOHN W. O'CONNOR, CUSTOMS CLERK, TREASURY DEPT.
N. CAROLINA	ASHEVILLE		E.L. BISHOP, SUPT. OF MAILS, POST OFFICE DEPT.
NORTH DAKOTA	BISMARCK	CHARLES KITSCH, POSTMASTER (ACTING)	
	FARGO	W.S. HOOPER, POSTMASTER	R.T. REIS, ASST. POSTMASTER
	GRAND FORKS	E.J. COLLETTE, POSTMASTER	C.C. O'GORMAN, LOCAL SECY. CIVIL SERVICE COMMISSION
	PORTAL	L.R. AXTELL, INSPECTOR-IN-CHARGE, IMMIGRATION BUREAU, DEPT. OF JUSTICE	H.V. BILL, DEPT., COLLECTOR OF CUSTOMS, TREASURY DEPT.
OHIO	AKRON	H.C. SCHUETTE, MANAGER SOCIAL SECURITY BOARD 205 UNITED BUILDING	DOROTHY M. SWEANEY
	CINCINNATI	DR. C.V. PAINE, DIST. MGR. 5TH CIVIL SERVICE DIST.	WM. J. GRABO, CHIEF OF INCOME TAX DIVISION
	CLEVELAND	V.W. POWERS, EXEC. ASST. REGIONAL OFFICE, SOCIAL SECURITY BOARD	J.H. LITTLE, PROCUREMENT DIV., TREAS. DEPT.
	COLUMBUS	C.C. DARBY ~~J.G. FISHER, U.S. WEATHER BUREAU~~ MGR. SOC. SEC. BD 209 NEW P.O. BLDG	ROSE M. ENGLE, CLERK, INTERNAL REVENUE
	DAYTON	CLARENCE N. GREER POSTMASTER	LT.COL. NORMAN D. BROPHY AIR CORPS, WRIGHT FIELD
	SANDUSKY.	R.N. DOWNING, DEPUTY COLLECTOR-IN-CHARGE CUSTOMS SERVICE, TREAS.	KARL H. KUGEL, DEPUTY COLLECTOR, INTERNAL REVENUE
	TOLEDO	S.H. OURBACHER Dep. Sec. BD ~~F.C. MCCLARY, WEATHER BUREAU~~	~~MRS. ENGLING G. BRADDON~~ HARRY GRAY WASHINGTON BUREAU OF INTERNAL REVENUE DIST. LABOR
OKLAHOMA	OKLA. CITY STATE DIRECTOR CHAR. DIV. OF CONSERV. DISTRIBUTION 5th Nat'l BLDG.	M.R. HARRISON ~~W.H. BIRD, OFFICE OF THE COLLECTOR OF INT. REVENUE, FED. BLDG.~~	ELLINOR D. RENO, 245 FED. DIANTHUS BLDG., OFFICE OF THE COL. OF INT. REVENUE ~~COLLECTOR OF INT. REVENUE~~ 5 WEST MAIN C.A. HENDERSON, A.P.A. ~~FED. PARKER, NAT'L PARK~~ SERVICE, MEDFORD KLAMATH FALLS
OREGON	GRANTS PASS (MEDFORD) KLAMATH FALLS	B.E. HAYDEN ~~B.G. HARDING, INTERNAL REVENUE AGENT, MEDFORD~~ Supt. Bur. of	
	PENDLETON	~~GEO. MITCHELL, PENDLETON~~ HOWARD WHIPPLE U.S. WEATHER BUREAU FIELD STATION	A.R. HALL, FOREST SERVICE
	PORTLAND	JAMES FRANKLAND, ASST. REGIONAL FORESTER, FOREST SERVICE, P.O. BLDG.	GEO. GRIFFITH, POST OFFICE BUILDING
	ROSEBURG	L.L. WINDERLY, POSTMASTER	C.V. CARSTENS, ASST. POSTMASTER
PENNSYLVANIA	PHILADELPHIA	W.J. ROTHENGIES, COLLECTOR OF INT. REVENUE	A.L. JOHNSON, ADJUDICATION OFFICER, VETERANS ADMIN.
	PITTSBURGH	SHAILER S. PHILBRICK U.S. ENGINEER, 1001 CHAMBER OF COMMERCE BLDG.	D.R. MCGAHEY, RAILWAY MAIL SERVICE
	READING	W.C. REIRG, SOCIAL SEC. BOARD, 230 N. 5TH ST.	MISS CELIA SHAFFER
PUERTO RICO	SAN JUAN	W.D. JOHNSON, INSPECTOR-IN-CHARGE, FED. COMMUNICATIONS COMM. 303 FED. BLDG.	JAMES L. TAIT, DEPUTY COLLECTOR OF INTERNAL REVENUE PROCESSING TAX REFUND DIV. FEDERAL BLDG.

4

STATE	CITY	PRESIDENT	SECRETARY
LOUISIANA	NEW ORLEANS	A. MILES PRATT, COLLECTOR, CUSTOMS, CUSTOMHOUSE	E.L. DOMON, DIRECTOR SOUTHERN FOREST EXPERIMENTAL STATION, MASONIC TEMPLE BLDG.
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MARYLAND	BALTIMORE	DR. THOS. G. BENNETT EDUCATIONAL ADVISOR, C.C.C., HEARST TOWER	GEO. G. JOHNS, U.S. INTERNAL REVENUE 203 CUSTOM HOUSE
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STATEMENT OF SECRETARY MORGENTHAU BEFORE
THE COMMITTEE ON WAYS AND MEANS OF THE
HOUSE OF REPRESENTATIVES

I am appearing before you today in support of H.R. ____ which raises the limitation on the power of the Treasury to issue public debt obligations under the Second Liberty Bond Act, as amended, from $65,000,000,000 to $125,000,000,000, and provides greater flexibility to enable the Treasury to conduct its financing operations. On previous occasions I have stated that I favored this periodical review by the Congress of the situation with respect to the public debt. I think it serves a useful purpose. It brings to the attention of the Congress and the public the condition of the public treasury.

It is urgent that this bill be promptly enacted. The balance of our borrowing authority at the end of February, 1942, was about $1,500,000,000. By the end of March it is anticipated that the borrowing authority will be insufficient to cover the necessary debt issues that will be required during the month of April.

In January, 1941, I appeared before your Committee in support of a bill to increase the total borrowing authority from $49,000,000,000 to $65,000,000,000. It

appeared at that time that a limitation of $65,000,000,000 would be sufficient to enable the Treasury to finance the estimated deficit in the Budget until the end of the present fiscal year and provide some margin. But we could not foresee then that we would be engaged in a war that would require our all-out effort. Our defense program at that time amounted to approximately $28,500,000,000 in appropriations, contract authorizations, and recommendations. The war program now exceeds $140,000,000,000.

The 1943 Budget submitted to the Congress early in January indicates that the deficit for the current fiscal year ending next June 30 will amount to $18,600,000,000 and, in addition, that the Treasury will be required to advance to governmental corporations approximately $3,000,000,000 to finance their activities. On the basis of these estimates the public debt on June 30, 1942, will amount to $70,600,000,000. The estimated deficit in the fiscal year beginning July 1, 1942, after taking into consideration additional contemplated budgetary revenues of $7,000,000,000 from new tax legislation, will amount to $35,400,000,000. We will also be required to raise $4,400,000,000 for governmental corporations. The estimated increase in the public debt for the fiscal year beginning July 1, 1942, based on these estimates, will thus be

$39,800,000,000 and leave us with a public debt on June 30, 1943, of $110,400,000,000.

While these figures are huge in amount, they are made necessary by the great task to which the Congress and the American people have dedicated themselves, namely, the task of winning this war. Whatever the cost may be we are ready to face it. We are strong enough to bear it, and we know that it will be worth it in the end. As I have suggested before, our production of overwhelming quantities of war materials, an effort that makes this debt necessary, should frighten no one but our enemies.

The bill before you proposes certain changes in the authority of the Treasury to conduct its financing operations in addition to the increase in the debt limitation. Briefly, these are as follows:

1. The Secretary of the Treasury would be authorized to issue Treasury marketable securities on a discount basis or on a combination interest-bearing and discount basis. At the present time we have authority to issue regular marketable securities on a discount basis only if the maturity date is not more than one year after their date of issuance. This additional authority would give the Treasury more flexibility and permit it to design its

issues to conform more closely to the investment requirements of particular classes of purchasers.

2. The Secretary of the Treasury would be authorized to accept in his discretion obligations of the United States which are redeemable upon demand in payment of any taxes imposed by the United States. This, in effect, can be now accomplished by the holder of such obligations turning them into the Treasury and getting the cash and then using the cash to pay taxes. The new authority would simplify the procedure and would make it more convenient to the taxpayer.

3. The Secretary would be authorized to offer any new Treasury obligations in exchange for outstanding obligations of any agency or instrumentality of the United States which are guaranteed by the United States as to both principal and interest. The Treasury has taken over all the financing of the various governmental agencies which formerly issued guaranteed obligations, and now provides them with funds by purchasing their securities. We are also in process of refunding the outstanding guaranteed obligations of these agencies into Treasury securities, but in view of the language of the various statutes under which guaranteed securities are issued, it is now necessary to refund them indirectly by purchasing

the guaranteed security and selling the holder a Treasury security. This proposed amendment would simplify these operations and permit us to offer Treasury securities directly to the holders of these guaranteed obligations in exchange for such obligations, in the same manner as Treasury securities are now refunded.

4. A provision is included to clarify the authority existing in Section 19 of the Second Liberty Bond Act, which as originally enacted in 1934, was intended to permit the Treasury to buy any of its securities in the market at or before maturity out of the proceeds of any public debt securities previously sold. The present language, however, is ambiguous and might be interpreted to mean that the authority may only be used, in effect, for the exchange of one security for another. This amendment would clarify the language in that section.

5. The Postmaster General would be authorized to transfer the liability for outstanding Postal Savings stamps to the Treasury, and his authority to issue such stamps would be terminated as of July 1, 1942. The Treasury will then assume the liability for redeeming such outstanding stamps and such stamps will become a public debt obligation.

When we initiated our present Defense Savings program last year we deemed it advisable to utilize the facilities of the Postal Savings System because it was already issuing savings stamps and had the facilities for immediately carrying out an expanded program. The question is now often raised by the purchaser of Postal Savings stamps as to whether the funds thus provided go into the Treasury for the purpose of helping to pay for the National Defense. Of course such funds do come into the Treasury and they are available for that purpose, but it is sometimes a little difficult for the purchaser to understand. In view of the fact that the Defense Savings program is carried on in the Treasury, I believe that it would facilitate the whole program if we could eliminate Postal Savings stamps and issue instead Treasury Savings stamps. These new stamps would also be sold through Post Offices as well as other agencies. The Postmaster General concurs in this proposed change.

6. A provision is included to remove the tax-exemption privileges on income from shares of stock issued by Federal agencies and instrumentalities which were inadvertently omitted from a similar provision in the Public Debt Act of 1941. This would put these shares

of stock on the same basis as obligations issued by the United States and by its agencies as provided in the Act enacted last year.

With this enlarged borrowing program before us it is necessary more than ever that the Treasury exert every effort to obtain its funds from the current income of the people. We have, therefore, materially expanded our campaign to sell Defense Savings Bonds. Since last May first, when the present Defense Savings Bond program was inaugurated, we have sold approximately $4,000,000,000 current redemption value of such securities. Up to December first, just prior to the attack on Pearl Harbor, the sale of these securities averaged about $300,000,000 a month. In the month of December we sold $500,000,000, in the month of January over a billion dollars, and in the month of February approximately $750,000,000. The American people are responding splendidly to our efforts to place these securities in the hands of the real investing public. Within the past sixty days we have inaugurated a plan for voluntary pay roll deductions to purchase Savings Bonds. Many business institutions have already adopted such plans and the number is increasing each week. At the present time nearly one-half of all the industrial employees

of the country have this method for buying Savings Bonds available to them. It is hoped that within the course of the next few weeks practically all businesses will have adopted these plans.

The Treasury has a tremendous program ahead of it. No one appreciates the magnitude of our problems better than those of us in the Treasury. We are facing the facts squarely, and we are working continuously in our endeavor to finance the war program as much as possible from current savings in order that our fiscal operations may be a positive force in winning the war and in preventing inflation.

This is Mr. Kuhn's Draft "B" but it is Draft "C" of the Secretary's tax statement.

Draft C 73

Statement of Secretary Morgenthau before the
Ways and Means Committee of the
House of Representatives

March 3, 1942

I am here to offer my suggestions as to our first Revenue Act of the war. I hardly need to emphasize the seriousness of the occasion. The task before us is to decide how this desperately serious war is to be financed and how its gigantic cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems now.

To defeat the strongest combination of enemies in our history, we shall have to spend on a scale for which there is no precedent. If we are to equip and

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transport fighting men in sufficient numbers to turn the tide, if we are to furnish the weapons to the men who are doing the fighting, we shall have to use every ounce of our national energy and mobilize every possible dollar of our income. The President has announced a program involving expenditures of $59 billion in the fiscal year 1943. We shall have to tax in accordance with the magnitude of that program and in accordance with the seriousness of the position in which we stand.

The President's Budget Message in January called for the raising of $7 billion in new revenue from taxes, together with an additional $2 billion to be obtained from the social security program. The unprecedented sum of $35-1/2 billion will have to be

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borrowed in the coming fiscal year, even if the new Revenue Act fulfills the President's hopes to the last dollar. I should like to urge, therefore, the adoption and attainment of the goal the President has set, not as the maximum but as the very least that we can afford to ask of the American people at this critical time.

Our task is more than the raising of a huge amount of new revenue. It is to make the tax program an instrument of victory. It is to frame the new Revenue Act so wisely and so soundly that it will facilitate the maximum production of war materials, hasten the mobilization of our resources, strengthen the unity of our people for the waging of total war,

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and prepare us for the new economic and social problems that will face us when the war is over.

This means, firstly, that the new Revenue Act must help to check inflation, for nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. It strikes at random without consideration of equity or ability to bear the hardships which it imposes. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war stresses and strains that will haunt us for decades.

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Today we are confronted with a grave threat of inflation. Prices of food today are following precisely the trend of the first World War; prices of all commodities are rising at a somewhat slower but nevertheless disturbing rate. (A chart showing these trends is attached as Appendix A.) Unless effective preventive measures are taken by all the means at our command, we shall have a rapid general increase in prices, with a resultant rise in the cost of our war effort far beyond the figures now contemplated.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires, first of all, the continuous and willing cooperation of every man and woman. It also requires a comprehensive and

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integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, rationing, and the regulation of consumer credit are other parts of such an integrated program.

It is important for us to remember that all these controls are interrelated. The devices of price control, allocation and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

We should, therefore, tax so as to withdraw the greatest possible volume of purchasing power at this time, when money incomes are high and the quantity

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of goods for civilian use is shrinking day by day because of the demands of our war effort.

A second obligation, a second pressing duty, is the need for severe economy in the operations of Federal, State, and local governments. The anti-inflationary purposes of our taxing and savings program will be defeated if, at the same time, the agencies of Government indulge in unnecessary expenditure.

As you know, I recommended a few months ago the saving of at least a billion dollars in Federal expenditures which caused competition with war production and added unnecessarily to the volume of purchasing power in the hands of the people. I recommended especially the immediate reduction of

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expenditures on highway construction, rivers and harbors, non-defense vocational training and Federal subsidies to keep up the prices of agricultural products.

Since then some economies have been made, but in the main my recommendations have not been followed. A vast field for economy remains, not only here in Washington but in the operations of State and local governments. I should like to urge once more that real and substantial economies be made as a corollary to the new tax program.

I do not mean that we should economize on the health and strength of our underprivileged, for that is no economy at all; but I do mean that we should save in subsidies to those who no longer need

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Government assistance, and in non-defense construction projects which can be postponed until the war is over.

I have spoken of the need of checking inflation and the need of cutting non-essential expenditures in financing the war effort; I come now to a third and most insistent need that should govern our wartime tax program. That is the need of holding fast to the basic principle of our tax system, namely, that taxes should be fair and non-discriminatory and imposed in accordance with ability to pay. The cost of this war will have to be borne by everyone. It will be borne willingly and cheerfully if the principle of ability to pay is followed.

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In terms of the new tax program, this principle means that special privileges in our tax laws should be removed. It means that taxes which cannot be adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. It means that undue profits should be recaptured wherever they occur. Unreasonable profits are not necessary in order to obtain maximum production with economical business management. The country will not tolerate the retention of undue profits at a time like this, when millions are pledging their very lives to save and perpetuate our freedom.

All will be expected to bear their fair share, in the higher and lower income levels alike. The recommendations which I shall now outline to the

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Committee will involve progressively increased taxes throughout the whole range of individual and corporate income now covered by our tax laws.

1. Individual Income Tax

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted according to amount of income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

I recommend that the individual income tax be changed to yield approximately $3 billion, or sixty percent more revenue than will be yielded under the present law.

In recommending this amount I have had in mind the fact that the great bulk of tax increases under

the social security changes will also fall on individual incomes. In accordance with the President's Budget Message I feel that the social security program should be expanded both as to coverage and as to protection, and that increased taxes for this purpose should be increased by approximately $2 billion a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

As for the individual income taxes themselves, I am suggesting a substantial increase in the income surtax rates throughout the scale. I should like to give you a few examples to show the effect of these increases on typical incomes.

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A single person with no dependents, with a net income of $3,000, pays $221 tax under the present law; he would pay $438 under the suggested schedule. A married person with two dependents, and with a net income of $3,000, pays $58 under the present law; he would pay $94 under the suggested schedule.

A single person with no dependents and with a net income of $10,000 pays $1,493 under the present law; the suggested schedule would call for payment of $2,673. A married person with two dependents and with net income of $10,000 pays $1,117 under the present law and would pay $2,101 under the proposed schedule.

The accompanying tables, which I shall now submit to the Committee, will show the rate scale and

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comparative effective rates of tax under the present law and under the suggested program. (Appendices B,C,D,E.)

Because of the threat of inflation and because of large increases suggested in the rates, it becomes essential to afford a more convenient method for the payment of income taxes. The best available expedient for this purpose is a provision for collecting at the source for those incomes that are paid periodically, including wages, salaries, bond interest, dividends, and royalties.

To start such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already

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called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary quick and substantial increases in the rate of tax collection, we cannot afford to postpone collection at the source.

Since it is not known how soon substantial increases in the rate of tax collection may be needed to check inflationary price rises, the Secretary of the Treasury should be authorized to begin the collection of income taxes at the source, at any time and at rates within his discretion up to 10 percent of the taxable net income. This would not be a supplementary tax; it would simply be a means of collection. It would furnish needed flexibility in relating tax collections to future economic conditions.

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2. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of $3 billion, an increase of slightly more than forty percent.

A substantial share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than taxes which are generally applicable to all corporate earnings irrespective of amount. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety. On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence.

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It is suggested that the maximum rate of the excess profits tax be increased from sixty percent to seventy-five percent with corresponding increases in the lower rate brackets.

The proposed increases in the excess profits taxes have the additional virtue of recapturing undue profits on war contracts. This method is far better than imposing profit limits specifically on war contracts. The difficulties of segregating profits on war contracts are very great and involve personnel, expense, uncertainty and litigation which we can ill afford at this time. Moreover, it is almost impossible to determine what rates of profit on cost or sales would be equitable under the widely varying special circumstances confronting different industries and contractors.

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With rates of this magnitude it is increasingly important to have a fair basis from which to measure the profits subject to the excess profits tax. In addition to the many provisions in existing law to adjust earnings of the base period to take account of unusual circumstances, it is suggested that further relief be afforded where the earnings of the base period were abnormally depressed.

Other changes in the excess profits tax law should also be made, some to eliminate defects which have been brought to light in the operation of the law, and others to eliminate unnecessary hardships. These changes are of a more technical character and will be presented to the Committee later, at its convenience.

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There should be no further increase in the corporate normal rate because any such increase would result in an undesirable windfall to the holders of partially tax exempt Federal securities.

It is suggested that the balance of the $3 billion in additional corporate taxes be provided by a special war surtax which would absorb the present corporate surtax and would be imposed at the rate of thirty-six percent on corporations with incomes of more than $25,000. This tax would differ from the present surtax in that a special tax credit would be allowed when the surtax net income for the current year has dropped in comparison to the income for the pre-war period. In a further statement one of my assistants will give the Committee a detailed explanation of this proposed

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war surtax and the reasons which have led the Treasury to recommend it.

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits possible. I am confident that incorporated business will willingly pay at such a time an additional amount of tax which will, after all, leave it in the aggregate in the same approximate position after taxes as during the years before 1940.

In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production may be

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tragically inadequate if it depends upon that motive alone. This is a time when we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty-five cents, the additional tax on such dollar shall be held by the Government to the account of the

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corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

The uncertainties of this period also make it important to reduce to the minimum the necessity for prophesying. The capital stock tax and the associated declared value excess profits tax are determined largely by the accuracy of guesses about future profits. It is suggested that the revenue produced by these taxes can be more fairly and less harmfully produced by the other taxes on corporations and that accordingly the capital stock and declared value excess profits taxes be repealed.

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3. Estate and Gift Taxes

The estate and gift taxes are imposed at the time of the transfer of wealth from one person to another. Many of the fortunes which are being transferred, and will be transferred in the future, were built up during a period when income tax rates were far lower than they are today. It is much more difficult now to build up large holdings of property. For this reason substantial increases in the estate and gift taxes should be imposed as a method of equalizing tax burdens. The suggested increases are indicated in attached tables. (Appendices F and G.)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of $40,000 be merged with the existing exemption of

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$40,000, and that a single exemption of $60,000 be allowed. This will increase the present exemption in some cases and decrease it in others, and will remove a discrimination between persons who are insured and those who are not.

It is likewise suggested that the exemption for the gift tax be reduced to $30,000 and that the annual exclusion of gifts be made a total of $5,000 for each donor, regardless of the number of donees to whom property is given.

These changes in rates and exemptions, together with certain changes designed to prevent avoidance of the tax, should increase the annual revenue from estate and gift taxes by $250 millions.

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4. Excise Taxes

New and increased special excise taxes on distilled spirits, gasoline, cigarettes, soft drinks, candy, and chewing gum, and other items, are suggested to raise approximately $1.2 billion of additional revenue.

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Some of them are imposed on commodities of which there is or will increasingly be a scarcity. Such taxes not only yield revenue but help to conserve materials needed for the war. Those excise taxes not relating to scarce commodities have been chosen so as to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer

D-B

incomes will keep up the demand for those commodities despite the higher taxes. Needed revenue will thus be obtained, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessaries of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended, and indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and plentiful commodities alike. It strikes at necessaries and luxuries alike. It bears disproportionately on the low income groups whose incomes are almost wholly spent on consumers goods. It is,

therefore, regressive and encroaches harmfully upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is scarce.

5. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great mass who must pay what is thereby lost. I am unwilling to ask the great mass of the taxpayers of the United States to pay billions of dollars of additional

D-B

revenues until these defects have been removed from the tax laws. They are bad enough in time of peace--they are completely inexcusable in time of war.

(a) Tax Exempt Securities. An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large taxpaying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great favor of escape from wartime burdens, and surely the States did not offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

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For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, there was much to be said for the gradual elimination of tax exemption through taxing future issues only. The national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities.

D-B

Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never been any contract or moral commitment between the Federal Government and the security holders or the local governmental authorities regarding Federal taxation. Since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair-minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden

D-R

of additional taxes and yet permits persons with large taxpaying ability to pay virtually nothing in taxes. The sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing ~~in~~ are their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes."

The taxing of future and outstanding issues of State and municipal securities would yield $200 million a year.

(b) Percentage Depletion. A second example of special privilege is the allowance for depletion. At

D-B

the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage of gross income (27-1/2 percent in the case of persons having an economic interest in oil and gas properties), the deduction being limited to fifty percent of the net income from the property. Under this arrangement percentage depletion goes on even after one hundred percent of the cost is recovered and may substantially exceed depletion based on cost.

In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action was then taken. The war has intensified the necessity for eliminating any such special favor to one group

D-B

of taxpayers. The removal of this special privilege would yield $80 million a year.

One of the reasons asserted in behalf of percentage depletion is that it stimulates exploration for new mineral properties. If this is a proper objective, it would be better achieved by a special allowance depletion to those who do explore for new minerals without indiscriminate extension of the same favor to all owners. At the convenience of the Committee, we shall place before it a plan directed to this purpose. So far as other minerals are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced.

D-B

(c) Separate Returns by Married Persons. A third example of special favoritism in the tax laws is the option allowed married couples to file separate income tax returns. This permission has little or no significance for most taxpayers since at the present time married couples with incomes of up to $3,500 (the amount is higher in the case of married couples with dependents) pay the same total tax whether they file joint returns or separate returns. It may make a great deal of difference in tax, however, in the case of married couples with large incomes, especially if the income is more or less evenly divided between husband and wife.

This difference in tax is unwarranted since in actual operation the family is the economic unit.

D-B

Two families with the same total income will usually manage and dispose of that income in a similar fashion, regardless of whether the income is received by only one spouse or is received by both spouses.

The adoption of mandatory joint returns would remove this tax differential and would also eliminate two specific kinds of tax avoidance which are present under existing law. The first is the treatment of community income in the so-called community property States. In the non-community property States the income is taxable to the spouse who earns it. In the community property States, however, the husband who earns the income may for tax purposes attribute half the earnings to his wife, although he retains the management and control of all the earnings. The

D-B

result is that married couples in community property States receive a very substantial tax advantage over those living in other States. This advantage would be removed if joint returns were made mandatory.

A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes within families. For example, if the husband receives a large amount of income from securities, he may reduce the family income tax substantially (and also reduce the amount of estate tax in case he predeceases his wife) by giving a portion of his fortune to his wife. This, and other methods of reducing taxes by married couples, would be eliminated through provision for mandatory joint returns.

D-B

Accordingly, it is suggested that the filing of joint tax returns by married couples be made mandatory, with a special allowance for the earned income of the wife or the husband.

At the increased rates of individual income tax previously suggested, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately $350 million.

(d) Other Special Privileges. There are other examples of special privilege in our tax laws which need to be removed. They are to be found in the provisions of our present laws affecting capital gains, insurance company taxes, and pension trusts, and will be discussed in detail later by one of my assistants.

D-B

The removal of these additional methods of avoidance would yield $95 million a year in additional revenue.

(e) Hardships on Taxpayers. The inequities of our tax laws work in two directions. As I have said, some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Let me give you a few examples of such inequities which need correction.

If you rent your house to tenants but are not in the real estate business, you are taxed on the rent you receive but you may be denied the right to deduct your expenses in producing that income. If, as an individual, you expand your plant to produce war materials, you are denied the benefits of the amortization provision which applies to corporations. If

D-B

some of your property is taken from you by the Government for war purposes, you are compensated but the transaction may involve you in a large involuntary taxable gain. You have no alternative but to pay the tax on a sale which the Government has forced you to make. With rates at wartime levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

Conclusion

The recommendations I have outlined to the Committee this ~~afternoon~~ morning would, if added together, produce over $8 billion in additional revenue. Since the effects of any series of tax proposals are interrelated to some extent, we should deduct $1 billion from this total. That would give us the $7 billion in new revenue which, as I said at the outset of my statement, should be regarded as the very least that we can call for at this time.

We are at war. An adequate tax program is vital to the successful prosecution of the war. The new taxes will be severe, and their impact will be felt in every American home; yet whatever the cost of financing the war may be, it will be small compared to the incalculable importance of winning it.

D-B

TO: 2/27/42

Secretary Morgenthau 113

1. I attach a copy of a memorandum and a covering letter which, pursuant to your request Wednesday night, I sent to Alex Dryer of N.B.C. yesterday.

2. The population of Scotland Neck, North Carolina in the 1940 census was 2,559. You will remember you asked about this in connection with the editorial from the Scotland Neck newspaper attacking the Donald Duck movie which Senator Reynolds inserted in the Congressional Record.

S. J. S.

MR. SPINGARN

MEMORANDUM FOR MR. MEYER.

The fact situation is understood to be as follows:

An American citizen was employed in Germany by an American concern throughout the calendar year 1940 and for more than eleven months during the calendar year 1941. The employer paid the employee's salary by making deposits to the account of the employee in a bank in the United States. The employee in Germany drew on this bank account.

On the basis of these facts, the individual in question is not chargeable with United States Federal income tax on account of his salary paid for services in Germany in 1940 and 1941. This is the case because of the provisions of section 116 of the Internal Revenue Code and the construction which the Bureau of Internal Revenue and the courts have placed upon it. That section provides that earned income from sources without the United States shall not be included in gross income and shall be exempt from taxation in the case of an individual citizen of the United States who is a bona fide nonresident of the United States for more than six months during the taxable year. Each of the operative factors of this statute exist in the situation postulated above. The phrase in the statute about earned income "received from sources without the United States" has, in effect, been construed to refer to the place where the salary was earned and not the place where the employer has his headquarters.

It is possible that not all of the salary was transferred from the American bank to Germany. Furthermore, it is understood that income tax on all of the salary was paid to the German Government.

These two factors do not affect the matter of liability for Federal income tax, on the facts in this particular case, since there is no Federal income tax liability in either event.

If the salary above mentioned constituted the entire income, there would not only be no tax, but also, no tax return would be required to be filed.

The above, of course, is based entirely on what is understood to be the fact situation as set out in the first paragraph of this memorandum. If any of the facts set out above reflect a misapprehension of the real situation, or if there are other facts which are not known to the writer of this memorandum, the conclusion might be substantially different. Particularly should it be noted that the conclusion above applies only to earned income such as salary, and would not ordinarily apply to income from other sources, such as, for example, income from investments. Such income would ordinarily be subject to the Federal income tax in the situation above, though a deduction could be made from gross income of the amount of tax paid to a foreign government in computing the final tax.

SJS:ins
2/26/42

1727 H Street, N.W.
Washington, D. C.
February 26, 1942.

Dear Mr. Dryer:

Pursuant to the Secretary's request last night, I am sending you a memorandum representing my personal views on the basis of my understanding of your situation. As I have indicated in the memorandum, a misapprehension on my part as to the facts, or ignorance of other facts, might easily change the whole picture, because (as you are probably aware) each tax case rests on its own bottom, and a thorough and detailed knowledge of all the facts is necessary before one can speak with real assurance. If, after reading the memorandum I enclose, you have any doubts about the matter, I suggest that you address a letter to the Commissioner of Internal Revenue requesting a ruling in your case. If you should write such a letter and wish to send it to me in the first instance, I will see that it gets expedite consideration by the Bureau of Internal Revenue.

I enjoyed very much our conversation last night and the really startling stories you told about those last two tremendous years in Germany. I hope I will have an opportunity to hear more of it sometime. If you want any further information, please write me, and I will be glad to do anything I can.

Sincerely yours,

Stephen J. Spingarn.

Mr. Alex Dryer,
Room 404,
National Broadcasting Company,
R.C.A. Building, Radio Center,
New York City.

SJS:ims

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1942

TO The Secretary's Files

FROM Mr. Thompson

Following the conference two weeks ago in the Secretary's office with respect to moving pictures, on which the Treasury would share 50% of the cost, Nelson Rockefeller's organization, 25%, and Colonel Donovan's organization, 25%, steps were taken to formalize the action by a written agreement. Huntington Cairns assumed this task and he reported that a lawyer from Colonel Donovan's organization stated that there was no legal authority for Colonel Donovan's organization to take a part in the agreement. Mr. Richards, Colonel Donovan's assistant, was out of town at the time and on his return he stated that the agreement he had made with the Secretary stood. Mr. Cairns proceeded with the drafting of the contract and it is now awaiting signature, but Mr. Cairns has informed me that Colonel Donovan's organization is not prepared to sign the contract until an allotment of funds is received from the President covering the operations of Colonel Donovan's organization. Request for such funds is now before the President.

Sir Morgenthau

In your recent Broadcast you
stated that the lowest salaries would be taxed
Everyone of us would everything done necessary to
win this war But we the common people want
the rich and every one to do their share
and when you tax women like my self
who make from eighteen to twenty dollars per week
doing hard factory work, some of them with
dependents that is hard money indeed
There has been one hundred and forty five
Billion dollars appropriated to aid the Allies
and for our Defence yet we haven't
adequate equipment for our troops or ships
and tanks to defend our own Country of

we were attached here we were were other
and Gen McArthur and his men are being
Mustered for lack of supplies and reinforcements
both rising and of living our people the
Common people of course will be endangered
and suffering from Malnutrition. Now let
tell you where the money has gone, to my
lucking Communist that knocks on Elanor
Roosevelts door to aid my country and
to bring thousands of Jewish refugees to this
country while you boy and the Roosevelt
boys smuggler around on a Yacht at
a fail salary. When the Roosevelts pledges
their selves to be the Saviour of the Jews
and to economically overture the American

people they began to feel as Jews in every
way possible they could and it will as Jews
as Communist or as Commonwealth Jews. The
American people are aroused at last and
Equity are working and I warn you
and Elmer Roosevelt we will never
be ruled by British Israel and there
will be a revolution in this Country that
will rock the world. I charge all of you
with being Traitors because you are
working to overthrow our Democratic Govt.
and trying to so enslave the American
people that they will never be free
if you whole you and your Sons
have your precious lives and our by

are dying by the thousands and soon it will be by the millions. They did well to place a Jew as Secty because who else would have so well been able to get and plead money from the common people. Thousands of Gentile boys have been taken from their homes and jobs many the only son many the sole support of the family they had to go but you go with my defense plea might that be Thrashe and you will find thousands of Jewish boys not even thinking of going because they are protected by the Roosevelts and then you wonder why Anti Semitism is growing in this Country. You said any one that gives no matter

how much their wage is by decided you tell
those Chicago Jews it buy a Bomber with
the money they Erected a Bronze Statue
to Solomon Hyman & Morris? The Exploitation of
your race and Elinor Roosevelt and her
Communist Line done more to make people
lose Faith in the Government and to cause
Disunity among the races than anything
that could happen and if you think I
am not speaking the truth write the same
of Indignation that swept her and of
Cincinnati Defense for offering a
Communist Jew it an eight thousand
dollar job and a Dancer it nearly five thousand

You people would do well to listen to the voice of the people because from now on many will speak who have not spoken before and the end of all will not be the British Israelites the Communists or the Royal Family of Roosevelts that will rule this Country but the People and you who have other plans will find that the Government will be for the people and by the people.

Sincerely
Sally Cartwell
6515 Yale Ave
Chicago Ill

Your people would do well to listen to the voice of the people because from now on many will speak who have not spoken before and the end it will not be the British Israelites the Communists or the Royal Family of Roosevelts that will rule this Country but the People and you who have other plans will find that the Government will be for the people and by the people.

Sincerely

Sally Cartwell
6515 Yale Ave
Chicago Ill

Mr. Morgenthau's Son

HENRY MORGENTHAU, III, 25 years old, is the eldest son of the Secretary of the Treasury. Recently he was appointed a housing specialist in the division of housing co-ordination, Office of Emergency Management.

He will be stationed in Cleveland where he has been connected with the Cleveland Metropolitan Housing Authority.

Here is hoping Mr. Morgenthau, III, will be able to serve his country gallantly in this stay-at-home job.

One wonders whether Melvyn Douglas, and the rest of red Hollywood who went all-out for Communism and the Spanish Loyalists, would be considered irreplaceable by their studios.

Morgenthau.

Hearing over radio were its nothing but raise taxes over taxes until the farmers are broke and out. Here is an item we must tell you to just how much are you doing for the U.S.A. and for our Red, White and Blue. We always should go for that to be true loyal citizens but now the U.S. has given the warring nations principally Great Britain more than half as much as Great Britain has appropriated during the whole war. Now another thing if our boys on farms all do like your son Henry III only 15 years old could do there would be no more. So he is nice stationed in Cleveland he is connected with a Housing Authority. His job is not so important our boys had good jobs to. There is no slacker, cannot be. I am hoping young Morgenthau will be able to do his share to his

country in this fine stay-at-home while our boys good deal older must go and die wolf miles and working boys while some of our boys have soft work and where no flies either an honest and patriot men are left to do the hard common sense boys must fight. allows war.

This just goes to show how our boy and the good Old U. S. A. gets respected from the Big Man.

Sincerely
A Tax Payer.

Farmers left without help.

They holler over radio raise and raise more. Can't be done. and over radio were Morgenthau said should divorce on account of getting tay. He call that a nice of Hish Morale to come. that comes from the capital.

February 27, 1942.

Dear Mr. Green:

It occurs to me that you may be interested in having a transcription of the recent radio program on which we both appeared. I am sending you a set of these records with my compliments.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William Green,
President, American Federation
of Labor,
901 Massachusetts Avenue, N.W.,
Washington, D. C.

By Lemmon 11:45

GEF/dbe

AMERICAN FEDERATION OF LABOR

LONG DISTANCE TELEPHONE NATIONAL 3875-1-2-3-4
CABLE ADDRESS AFEL.

Washington, D. C.
March 4, 1942

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

My dear Mr. Secretary:

You are right in your conclusion that I would be interested in having a transcription of the recent radio program in which we both participated. I received the copies of the records you sent me. Please accept my sincere thanks for same.

I enjoyed the opportunity of joining with you in the radio program referred to. I have received many reports which indicate that it was highly successful.

Very truly yours,

Wm Green

President,
American Federation of Labor

ds

February 27, 1942

TO: HAROLD N. GRAVES

SUBJECT: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

SALE OF BONDS

Actual cash receipts from the sale of E, F and G Bonds for the first twenty-one business days of February were $623,438,000, a decrease of 21.6 percent from sales for the corresponding period during the month of January. Sales for the first twenty-one business days of January were $794,986,000, and for the same number of days in December, 1941, were $365,174,000.

SERIES E BONDS

Sales of Series E Bonds for the first twenty-one business days of February were $356,549,000, a decrease of 31 percent from January sales for the corresponding period which totaled $516,928,000. Series E Bond sales for the first twenty-one days of December, 1941, were $226,688,000.

PAYROLL SAVINGS

The Payroll Savings Plan is now available to 17,197,320 persons, or 49 percent of the estimated 34,800,000 recipients of regular income in the nation. Twelve states have achieved 100 percent installation of the Plan in concerns employing more than 500 persons. Throughout the nation, 66 percent, or 4,850 of the 7,365 firms employing more than 500, now have installed the Plan.

Wyoming and Kansas lead the states in installing the Plan in concerns employing between 100 and 499 persons. Wyoming with 13 firms in this category, and Kansas, with 272, both report 100 percent installation.

In Louisiana, 247 firms with approximately 32,000 employees, have adopted the Payroll Savings Plan. This state's total is 547 firms with 59,000 employees.

The Plan is being set up for the 1,630 employees of the Library of Congress.

PLEDGE CAMPAIGN

February 25 has been set as the starting date for the Pledge Campaign in Massachusetts. Other New England states are due to begin their campaigns shortly.

RETAILERS

New Orleans, La., retailers, conducted a city-wide campaign keynoted with the slogan "Make Carnival Day Bond and Stamp Day." Minute Man cuts, special emblems and layouts appeared in virtually every advertisement in all New Orleans newspapers, and generous editorial support in the form of cartoons and stories were contributed. (Copies attached of the New Orleans Item, States and Times-Picayune.)

A pledge by 50,000 national associations representing 1,800,000 retail stores to sell $1,072,000,000 worth of Bonds and Stamps during 1942, was made at the regional meeting of the Retail Advisory Committee in New York City on February 25. The meeting adopted a five point program to recommend to retail stores for increased participation in the Defense Savings Program. The Advisory Committee reported that 7,000 Defense Savings Committees have appointed chairmen to represent retail trade. (Sample of publication issued by the Retailers' Committee for Greater New York.) Copies of this publication were mailed to all State Administrators. (Full page advertisement from New York Herald-Tribune attached.)

BANKING AND FINANCE

Development of plans to utilize the proffered cooperation of the nation's securities dealers were completed this week. Special Bond application forms for use by the securities dealers are being prepared and will be distributed through Federal Reserve Banks. One hundred and forty-nine dealers in all 48 states have been designated by the National

BANKING AND FINANCE (continued)

Association of Securities Dealers, the Investment Bankers Association of America, and the Association of Stock Exchange firms, to work with State Administrators. Coordination of the securities dealers' efforts will be in charge of T. J. Bryce, partner of Clark, Dodge and Company, Investment Bankers, and a former vice-president of the Continental Illinois National Bank and Trust Company of Chicago. Mr. Bryce is serving in Washington as Security Dealers Liaison Officer for the Defense Savings Staff.

DIRECT MAIL

Bond sales by direct mail for the last seven days were $934,085, bringing the total mail sales through February 26 to $23,892,673.

BUSINESS PUBLICATIONS

Returns from 637 business publications report that they will publish our full-page advertising release, "A War Message to All Employers," in either their February or March issues. These publications have a combined circulation of 4,628,340.

To date, 3,564 requests -- directly traceable to our first advertising release to the business press -- have been received from individual business firms. In addition, 196 similar requests have been received as a direct result of our second advertisement.

LABOR PUBLICATIONS

Notification has been received from 57 labor publications, to date, that they will publish our current advertising release on Payroll Savings.

NEWSPAPER CARRIER SALES

As of February 26, 813 newspapers report that a total of 134,884,265 Defense Savings Stamps of the ten-cent denomination, or the equivalent in Bonds or Stamps of larger denomination, have been sold by their newspaper carrier boy "Defense Agents." This is an increase of 13,440,536 ten-cent Stamps sold since the report of February 20.

FIELD ORGANIZATION STATUS

Number of local committees in the United States now totals 4,669 with a membership of 77,451.

Forty-nine states now have state and local committee organizations while three states have state committees organized, but not local committees.

(See map attached.)

NEWSREELS

Paramount News and MGM News of the Day showed newsreel shots of Lana Turner and Dorothy Lamour in activities designed to spur Defense Bond sales. (Newsreel release sheets attached.)

NEWSREEL CREWS

The Defense Savings Staff newsreel crews made shots this week of Bond buying activities of Americans in Denver, Colo; Cheyenne, Wyo; Salt Lake City, Utah; Sioux Falls and Pierre, S.D.; Bismarck, N.D.; Portland, Ore.; Seattle and Tacoma, Wash.

STAGE AND SCREEN STARS

Sabu, the "elephant boy," appeared before gatherings of newspaper carrier Defense Agents in Tampa, St. Petersburg, Miami and Jacksonville, Fla., and in Atlanta, Ga.

Edward G. Robinson made personal appearances at factories and shipyards in New York City and surrounding communities, speaking in the interest of the Defense Payroll Savings Plan.

Jack Dempsey toured twelve factories in Denver on Wednesday, February 25, advocating adoption of the Payroll Savings Plan.

Plans were completed for the inauguration of Lucy Monroe's song tour of the nation at the Riverside Stadium, Washington, D.C., on March 4, under the sponsorship of The Evening Star.

THEATRES

The Defense Savings Staff and the publicity and advertising division of the Motion Pictures War Activities Committee have completed plans to place Defense Stamps on sale in virtually every theatre in the country. Arrangements call for the sale of Stamps inside the theatres on a 52-weeks-a-year basis, with sale drives at regular intervals.

The eight major film companies and the Minnesota Amusement Company, one of the largest theatre groups in the middle West, have installed the Payroll Savings Plan.

MAGAZINES

Cooperation of magazines with the Defense Savings Program is increasing as the result of appeals by telegrams, letters and personal contact with editors. Cover designs, use of Defense Savings emblems, feature articles and cartoons appear in many current issues. Typical magazine "breaks", copies attached, include the following:

(1) Readers' Digest, feature on "The U. S. Pocketbook Enlists", by Stanley High.

(2) Liberty, feature on Carole Lombard by Adela Rogers St. Johns, emphasizing her Defense Bond sale achievements. Also, use of Defense Savings color emblem on cover.

MAGAZINES (Continued)

(3) American Weekly, full color page cover by Henry Clive. Also, full page color advertisement announcing $10,000 Defense Bond Contest by Sunbrite.

(4) Saturday Evening Post. Little Lulu cartoon carrying "Buy Defense Bond" message.

(5) This Week, reproduction of Minute Man on front cover.

(6) Parade, use of Minute Man cut, in run of magazine.

(7) New Yorker, background Defense Savings Poster in cartoon.

(8) Coronet, use of small Minute Man cut on back cover in March issue.

(9) Ladies Home Journal, use of Defense Savings Emblem in colors on front cover.

Advertising space is now being contributed by a number of magazines, including Saturday Evening Post and the New Yorker. We are about to conduct an intensive campaign in the hope of getting every large general magazine in America to carry advertising material on a regular basis.

RADIO

The Payroll Savings Plan has now been adopted by 373 radio stations and 288 of these report 100 percent participation by their employees. All four Milwaukee, Wis., stations report 100 percent membership in the Plan.

Several network sponsored programs are planning special Defense Savings themes in forthcoming programs. The Fibber McGee and Molly program, sponsored by S. C. Johnson & Son, Inc., tentatively has scheduled Minute Man speakers for the next four weekly broadcasts; George Fisher's Marro Oil Program has made similar arrangements; the Red Skelton program, sponsored by Brown and Williamson Tobacco Co., will present an entire skit based on Defense Savings; while the Jack Benny program, sponsored by General Foods, is planning a complete episode to promote Bond and Stamp sales.

To date, 12,181 Minute Man announcements have been made in English and eleven foreign languages over 826 radio stations.

Recordings of Minute Man addresses were made by United States Senators and are being released to radio stations.

Six hundred and ninety-eight radio stations are using, three times weekly, the new transcribed fifteen-minute Defense Savings program, "The Treasury Star Parade".

Special citations for intensified cooperation with the Defense Savings Program are being sent to all radio stations.

PRESS

News releases on Defense Savings activities no longer are mailed to all newspapers. After experimenting over a period of several weeks, the Press Section determined that it could achieve satisfactory results by servicing press releases to the three press associations, the Associated Press, United Press and International News Service; to Washington newspapers, and to correspondents of other leading dailies.

This change in mailing procedure has, and will continue to effect considerable saving in paper and postage, mimeographing and clerical handling.

An outline of publicity proposals for the Pledge Campaign and ten stories suitable for local adaptation were prepared for guidance of state and local committees.

Attached are four glossy print pictures on Defense Savings activities in New York City, Springfield, Mass., and Juneau, Alaska, which were serviced to newspapers by Acme Newspictures, Inc.

LABOR PRESS

In connection with the Secretary's broadcast with William Green, President of the American Federation of Labor, on Sunday, February 22, a pledge by the Massachusetts Federation of Labor at the Minute Man statue in Concord was arranged and widely publicized. (Clippings attached.)

RELIGIOUS PRESS

The Jewish Press Association agreed to distribute mat material to editors of Jewish newspapers and publications on Defense Bond and Stamp promotion.

Time for speakers representing the Treasury Department has been promised at the national conventions of Catholic Editors and Protestant Editors, to be held in Birmingham, Ala., and New York City respectively in May.

COLLEGE PRESS

First mailing to 850 college editors is scheduled for Monday, March 2. Mailing includes letter asking cooperation; suggested editorial; filler material, Minute Man mats, and a release on what Bonds and Stamps purchase in terms of military equipment.

An advertisement for college publications, (draft copy attached) will be mailed later.

The Collegiate Digest, rotogravure publication sent to more than 300 colleges, publishes a full page on Defense Bonds and college participation in its current issue. (Copy attached.)

2/27/42

Analysis of Exposure to Payroll Savings Plans
February 21, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Large railroads	154	167	92
(2) Other firms with 500 employees or more	4,908	7,261	68
(3) Other firms with 100 to 499 employees	10,200	26,971	38
(4) Subtotal - large firms	15,262	34,399	44
(5) Firms with less than 100 employees	16,883	*	*
(6) Total business organizations	32,145	*	*
II. Governmental organizations	*	*	*
III. Grand total	32,145	*	*
Part B - Summary by Number of Employees Exposed			
I. Business organizations			
(1) Large railroads	1,372,205	*	*
(2) Other firms with 500 employees or more	12,842,525	*	*
(3) Other firms with 100 to 499 employees	2,275,217	*	*
(4) Subtotal - large firms	16,489,947	*	*
(5) Firms with less than 100 employees	474,925	*	*
(6) Total business organizations	16,964,872	30,400,000 1/	56
II. Governmental organizations			
(1) Federal Government	*	1,700,000 1/	*
(2) State and local governments	830,683	2,700,000	31
(3) Total governmental organizations	*	4,400,000	*
III. Grand total	17,795,555	34,800,000 1/	51

February 27, 1942

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

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans

(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Jan. 10	Feb. 14	Feb. 21		Jan. 10	Feb. 14	Feb. 21
Alabama	9	29	38	76	12	38	50
Arizona	15	19	19	19	79	100	100
Arkansas	6	16	16	18	33	89	89
Northern California	114	142	142	196	58	72	72
Southern California	123	150	157	165	75	91	95
Colorado	22	23	23	32	69	72	72
Connecticut	97	138	139	185	52	75	75
Delaware	2	2	2*	28	7	7	7
District of Columbia	12	23	24	52	23	44	46
Florida	18	25	29	66	27	38	44
Georgia	35	48	50	143	24	34	35
Idaho	8	9	9	10	80	90	90
Illinois	277	369	378	634	44	58	60
Indiana	41	92	97	180	23	51	54
Iowa	9	36	37	53	17	68	70
Kansas	16	31	31	31	52	100	100
Kentucky	19	46	46*	90	21	51	51
Louisiana	0	12	18	55	0	14	21
Maine	42	52	52	52	81	100	100
Maryland	40	93	98	154	26	60	64
Massachusetts	41	242	250	370	11	65	68
Michigan	305	319	319	333	92	95	96
Minnesota	87	98	102	106	82	93	96
Mississippi	12	15	15	28	43	54	54
Missouri	0	128	130	130	0	98	100
Montana	4	5	5	5	80	100	100
Nebraska	28	32	32	41	68	78	78
Nevada	3	3	3	3	60	100	100
New Hampshire	17	27	27	27	63	100	100
New Jersey	185	213	220	238	78	89	92
New Mexico	5	6	6	6	83	100	100
New York	416	733	787	1,350	31	54	58
North Carolina	49	55	103	152	32	36	68
North Dakota	0	1	1	1	0	100	100
Ohio	285	415	417	557	51	75	75
Oklahoma	22	37	37	62	35	60	60
Oregon	62	62	62*	62	100	100	100
Pennsylvania	356	465	500	625	57	74	80
Rhode Island	38	67	67	67	56	100	100
South Carolina	27	48	55	60	45	80	92
South Dakota	1	4	4	4	25	100	100
Tennessee	4	17	18	108	4	16	17
Texas	34	50	51	151	22	33	34
Utah	8	9	9*	14	57	64	64
Vermont	10	12	12	12	83	100	100
Virginia	41	74	77	93	44	79	83
Washington	44	50	51	80	55	63	64
West Virginia	8	28	28	48	17	58	58
Wisconsin	84	131	134	137	61	96	98
Wyoming	0	1	1	1	0	100	100
Alaska	0	3	3*	3	0	100	100
Railroads	98	98	102	111	85	85	92
Total	3,185	4,850	5,013	7,371	43	66	68

Office of the Secretary of the Treasury, Division of Research and Statistics. February 27, 1942

* Data are for February 14, inasmuch as no February 21 report was received.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans

(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Jan. 10	Feb. 14	Feb. 21		Jan. 10	Feb. 14	Feb. 21
Alabama	17	73	89	285	6	26	31
Arizona	15	25	31	58	26	43	53
Arkansas	22	32	33	142	15	23	23
Northern California	160	401	411	489	33	82	84
Southern California	495	632	654	1,171	42	54	56
Colorado	64	92	101	198	32	46	51
Connecticut	100	231	238	622	16	37	38
Delaware	0	0	0*	84	0	0	0
District of Columbia	8	18	20	152	5	12	13
Florida	48	87	97	139	35	63	70
Georgia	56	83	91	589	10	14	15
Idaho	19	24	26	50	38	48	52
Illinois	48	575	724	2,252	2	26	32
Indiana	0	250	295	586	0	43	50
Iowa	4	69	76	271	1	25	28
Kansas	114	272	272	272	42	100	100
Kentucky	75	98	98*	312	24	31	31
Louisiana	0	44	77	384	0	11	20
Maine	3	34	40	198	2	17	20
Maryland	32	76	86	405	8	19	21
Massachusetts	53	507	531	1,523	3	33	35
Michigan	137	408	515	1,022	13	40	50
Minnesota	181	327	343	399	45	82	86
Mississippi	30	47	47	143	21	33	33
Missouri	0	243	278	664	0	37	42
Montana	22	34	35	39	56	87	90
Nebraska	6	56	61	123	5	46	50
Nevada	8	14	14	24	33	58	58
New Hampshire	7	56	60	145	5	39	41
New Jersey	171	258	265	869	20	30	30
New Mexico	12	28	30	35	34	80	86
New York	505	1,224	1,949	4,255	12	29	32
North Carolina	29	129	141	499	6	26	28
North Dakota	4	7	7	29	14	24	24
Ohio	0	505	547	1,739	0	29	31
Oklahoma	29	128	133	345	8	35	39
Oregon	21	95	95*	317	7	30	30
Pennsylvania	713	1,224	1,307	2,032	35	60	64
Rhode Island	49	77	112	224	22	34	50
South Carolina	13	42	49	174	7	24	28
South Dakota	5	13	15	19	26	68	79
Tennessee	0	50	57	448	0	11	13
Texas	74	148	167	1,375	5	11	12
Utah	13	19	19*	111	12	17	17
Vermont	30	46	47	63	47	73	75
Virginia	31	110	127	338	9	33	38
Washington	71	135	148	406	17	33	36
West Virginia	0	32	34	279	0	12	13
Wisconsin	0	183	192	680	0	27	28
Wyoming	1	13	14	14	7	93	100
Alaska	0	2	2*	2	0	100	100
Railroads	46	46	49	52	88	88	94
Total	3,541	9,316	10,249	27,023	13	34	38

Office of the Secretary of the Treasury, Division of Research and Statistics. February 27, 1942

* Data are for February 14, inasmuch as no February 21 report was received.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twenty-two Business Days of February and January 1942 and December 1941
(February 1-26, January 1-26, December 1-26)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
Series E - Post Offices	$ 80,985	$135,523	$ 82,799	-$ 54,538	$ 52,724	- 40.2%	63.7%
Series E - Banks	287,297	428,497	183,417	- 141,200	245,080	- 33.0	133.6
Series E - Total	368,282	564,021	266,215	- 195,739	297,806	- 34.7	111.9
Series F - Banks	48,723	62,065	25,925	- 13,342	36,140	- 21.5	139.4
Series G - Banks	235,462	238,530	126,174	- 3,068	112,356	- 1.3	89.0
Total	$652,466	$864,616	$418,314	-$212,150	$446,302	- 24.5%	106.7%

Office of the Secretary of the Treasury, Division of Research and Statistics. February 27, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

CONFIDEN

UNITED STATES SAVINGS BONDS

Daily Sales - February 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	$ 8,435	$ 34,150	$ 6,191	$ 19,795	$ 60,136	$ 42,585	$ 6,191	$ 19,795	$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
16	5,741	22,405	3,212	13,748	39,365	28,147	3,212	13,748	45,107
17	2,639	4,285	690	3,211	8,187	6,924	690	3,211	10,826
18	2,992	13,911	1,715	14,118	29,745	16,903	1,715	14,118	32,737
19	3,147	9,167	1,401	9,401	19,969	12,313	1,401	9,401	23,115
20	3,231	11,769	1,455	6,138	19,362	14,999	1,455	6,138	22,592
21	3,827	11,733	3,193	7,282	22,208	15,560	3,193	7,282	26,035
23	4,490	12,015	2,703	7,784	22,502	16,504	2,703	7,784	26,991
24	1,642	2,339	1,148	1,623	5,109	3,980	1,148	1,623	6,751
25	1,483	6,222	1,697	9,663	17,582	7,705	1,697	9,663	19,065
26	2,922	8,812	1,961	15,334	26,107	11,733	1,961	15,334	29,028
Total	$ 80,985	$287,297	$ 48,723	$235,462	$571,481	$368,282	$ 48,723	$235,462	$652,466

Office of the Secretary of the Treasury, Division of Research and Statistics. February 27, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

February 27, 1942

TO: Mr. Swope

FROM: The Secretary

It seems to me that we are getting enough stock on hand of "E" Bonds and, if you agree, I suggest that we manufacture less for a while.

Daily changes in the stock of Series E savings bonds on hand 1/

(In thousands of pieces)

	Number of pieces sold this day	Number of pieces manufactured this day	Stock on hand at close of day	IBM deliveries this day
Feb. 10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-
13	144	370	18,894	-
14	87	none-closed	18,807	-
15	none-closed	none-closed	18,807	-
16	363	535	18,979	2,500
17	89	800	19,690	1,000
18	218	800	20,272	1,000
19	160	800	20,912	1,000
20	193	800	21,519	1,000
21	200	none-closed	21,319	-
22	none-closed	none-closed	21,319	-
23	214	800	21,905	-
24	55	800	22,650	1,600
25	104	800	23,346	700
26	158	800	23,988	875

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

February 27, 1942

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

Copy of this whole memo to Herbert Graves.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1942

TO Secretary Morgenthau

FROM Mr. Thompson

Given to Mr. Graves 3/2/42

Mr. Irey reports that a request was made to the F.B.I. for an investigation of Anne C. Boardman but that no investigation was made inasmuch as Miss Boardman resigned from O.C.D. before they had undertaken an investigation. Her resignation from O.C.D. was accepted without prejudice. Mr. Irey's final report of his investigation on Miss Boardman will be in Monday or Tuesday of next week.

HMT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 26, 1942

TO Secretary Morgenthau

FROM Mr. Thompson

The following is the information you requested with respect to six employees in the Defense Savings organization:

ANNE C. BOARDMAN - Miss Boardman's employment as an Assistant Defense Securities Promotion Specialist at a salary of $2600 per annum has been recommended but has not yet cleared the Civil Service Commission and the appointment has not been made.

Attached is copy of a favorable preliminary report from a Special Agent of the Intelligence Unit at Denver. A report from the Washington Agent has not yet been received. Miss Boardman graduated from both the grade and high school of the San Luis School, Colorado Springs, Colorado, a private boarding and day school for girls. She later went to China and on her return went to Colorado Springs several times to help organize the local committee of the Committee to Defend America, where she was regarded as a diligent worker, particularly adapted to that kind of promotional activity. She was also associated in the work of the League of Women Voters from 1938 to 1940, where she was reported as punctual and dependable and always on the job although serving without pay. She was also reported as having evidenced outstanding ability and initiative, with extraordinary ability to meet people. It was stated that she has a good personal character and is absolutely loyal to the Government.

BETTE EVANS - Miss Evans is an Associate Advertising Specialist at a salary of $3200 per annum. A favorable report was received in her case. She holds a B. A. Degree from Drake University, Des Moines, Iowa, and in addition she did graduate work at Drake University. She had advertising experience with the Register-Tribune of Des Moines, Iowa, was Promotion Director of the Medinah Club (Chicago Towers), Promotion Director of the Hotel Shoreland, Chicago, Director of Women's Promotion of the National Committee for Agriculture, Chicago, performed advertising duties with the Martin Pokrass Advertising Company and the C. L. Miller Advertising Company, both of Chicago.

ELEANOR H. DE GOLYER - Mrs. De Golyer is an Associate Defense Securities Promotion Specialist at a salary of $3200 per annum. A favorable report was received in this case. Mrs. De Golyer attended Goucher College, Baltimore and received an A. B. Degree on graduation. Since graduation, she has been active in the work of the Alumnae Association of the College and served as president of the Alumnae Council. She is reported to be a women of unusual refinement and culture, attractive in appearance, efficient in organization work, and possesses a general personality that would fit her unusually well to work with other people. From April, 1933 to September, 1941 Mrs. De Golyer was employed in various capacities by Rockford College, Rockford, Illinois, for the last four years as director of the Committee on Admission. The only other employment was with the Federal Board of Vocational Education and the War Industries Board in Washington from September, 1918 to June, 1919.

MARJORIE L. SPRIGGS - Miss Spriggs is an Advertising Specialist at $3800 per annum. A favorable report was received in this case. She is a graduate of Emerson College at Boston, receiving a B. L. I. (Bachelor of Literary Interpretations) Degree. On several occasions she has been on the radio, on a program under the name of Jean Allen. She also performed a considerable amount of responsible public work such as publicity director, radio work, and press representative. Her work was always regarded as satisfactory and she is reputed to be a person of good character and reputation, and loyal to the Government. She has been with the Defense Savings Staff since April, 1941 as Chief of the Educational and Women's Activities Division.

DOROTHY D. CROOK - Miss Crook is a Senior Defense Securities Promotion Specialist at $12.77 a day when actually employed. Recommendation for her appointment is for a period not to exceed three months, subject to a satisfactory report on character investigation. This report has not yet come in. Miss Crook was formerly employed in the Treasury in the Stabilization Room as a Junior Research Assistant at $2000 per annum. She previously had worked in the State Department and in the Division of Press Intelligence at Commerce. Her outside employment consisted of two years at the Chase National Bank as a Research Economist and two years as a Director of Public Affairs with the National Federation of Business and Professional Women. She graduated from Barnard College with an A. B. Degree and acquired an M. A. Degree at Columbia University.

MARGARET B. BROWN - Mrs. Brown is employed as an Information Specialist at $10.55 per day when actually employed. She is a graduate of Columbia University, New York, and the Columbia University School of Journalism, with an M. S. Degree. She worked for the Bronxville Press at Bronxville, New York, as Society Editor for the school column; as Assistant Editor of the Women's Page, and on movie and radio work for the Pathfinder Magazine, Washington, D. C. Character investigation was favorable, it being reported that she was loyal, honest, and an American of good reputation.

SI-A-DSS
RCL:BEM

February 24, 1942.

TO: Mr. Charles W. Adams.

FROM: R. C. Lynn.
(Office of Chief Coordinator)
(Treasury Enforcement Agencies)

Information has been received in this office that a favorable report is being written on the following Defense Savings Staff case:

SI-24554-A-DSS - Anne Collins Hoardman

RCL

R. C. Lynn,
Special Agent.

cc - Miss Cullen.

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Denver, Colorado,
February 16, 1942.

INTELLIGENCE UNIT

Denver (Dist. No. 13)
(Name of Division)

SI-2544C-A-[redacted]
H&L:D

INTERNAL REVENUE
FEB 19 1942
INTELLIGENCE UNIT

Special Agent in Charge,
Intelligence Unit,
Treasury District No. 13,
Denver, Colorado.

In re: Anne Collins Boardman,
Washington, D. C.
Applicant: Defense Savings Staff

This communication relates to an investigation of the character, reputation, and loyalty to this Government of the above-named individual who is an applicant for the position of Assistant Defense Securities Promotion Specialist in the Defense Savings Staff, Office of the Secretary, Washington, D. C. The case jacket was transmitted to the Denver Division for investigation on February 10, 1942, with application on Special Form 1 attached. The applicant has not been interviewed, and the local investigation has been limited to the information given in the application and inquiry as to police and credit records.

The applicant stated in her application that she attended the San Luis School, Colorado Springs, Colorado, from 1918 to 1926, and was graduated from both grade and high school. Inquiry at Colorado Springs revealed that this is a private boarding and day school for girls. An interview was had with Mrs. Robert K. Potter, head mistress of the school on February 14, 1942. Mrs. Potter stated that in the absence of her office clerk she could not verify the exact dates of Miss Boardman's attendance at the school as individual permanent record cards were not kept prior to 1929, and she did not know the location of the older records. However, Mrs. Potter remarked that she remembered Miss Boardman very well and recalled that she had last attended the school in 1926. She said that the applicant must have graduated as she knew that she went to Paris and entered the Sorbonne University thereafter.

Mrs. Potter related that she did not have much contact with the applicant from 1926 until 1936 after Miss Boardman returned from

China. She said that Miss Boardman then came to Colorado Springs several times to help organize the local committee of the Committee to Defend America in which Mrs. Potter was also active. She observed that Miss Boardman was a diligent worker who seemed particularly adapted to that kind of promotional activity. Mrs. Potter said that she heard Miss Boardman make several public speeches in connection with this work and thought she did very well as a speaker. She stated it was her opinion that Miss Boardman is well qualified for work which would require her to meet the public as her extensive travel has given her the ability to meet any kind of people on friendly terms. Mrs. Potter declared that Miss Boardman has a good character and reputation; that her conduct was excellent as a student; and that she has never heard anything derogatory about her as a young woman. She stated there is no doubt that Miss Boardman is a loyal American with a family background of the best type of citizenship.

Miss Boardman related in her application that she was employed from May 1940 to June 1941 at Denver, Colorado, under the supervision of W. W. Grant as an organizer for the Committee to Defend America. A personal interview was had with Mr. Grant on February 13, 1942. He is one of the most prominent attorneys in Denver and has been one of the leaders in the work of the Committee. Mr. Grant verified this period of employment and stated that Miss Boardman had been a volunteer, working without salary. He declared that the applicant had shown a great deal of initiative and ability; that she was the most valuable organizer the Committee had ever had; and that she had been taken to New York by the national committee because of her outstanding work in Denver. Mr. Grant further declared that he believes Miss Boardman has the greatest ability of any young woman of his acquaintance. He said that she could have been a useless society girl as she comes from a prominent and wealthy family in Colorado Springs, but that she had always chosen to occupy her time in a useful manner. Mr. Grant stated that he has known Miss Boardman's family for thirty years and that he is positive she and all her family are loyal Americans.

Mrs. Lucile L. Beck of the Committee to Defend America, Denver, Colorado, was also interviewed on February 13, 1942. She said that she has known the applicant since Miss Boardman returned from China in 1938; that she was associated with her in the work of the League of Women Voters from 1938 to 1940; and that Miss Boardman had worked under her direct supervision during the applicant's service as an organizer for the Committee. She declared that the applicant, even though working without pay, had been punctual and dependable and

always on the job. Mrs. Beck stated that Miss Boardman had evidenced outstanding ability and initiative in going out by herself to organize local committees in other cities. She said the applicant has extraordinary ability to meet people, seeming to find a common ground immediately with anyone no matter what his station in life. Mrs. Beck declared that Miss Boardman has a good personal character and is absolutely loyal to this Government.

The investigation revealed no police or credit record of the applicant at Denver or Colorado Springs, Colorado.

It is recommended that the case jacket, together with this communication, be forwarded to the Special Agent in Charge, District No. 6, Washington, D. C., for completion of the investigation.

H Alan Long

H. Alan Long,
Special Agent.

FOR THE PRESS IMMEDIATE RELEASE FEBRUARY 27, 1942

REDISTRIBUTION OF MARITIME FUNCTIONS

The President, by Executive Order issued today, has transferred all of the functions of the Bureau of Marine Inspection and Navigation in the Department of Commerce to the United States Coast Guard and the Bureau of Customs and has further transferred the training functions of the Maritime Commission to the Coast Guard. This move is designed to facilitate the Government's efforts in the intensive wartime development of the Merchant Marine.

To the United States Coast Guard is transferred the safety inspections which every vessel of the American Merchant Marine undergoes periodically. This has been a responsibility of the local Boards of Inspectors of the Bureau of Marine Inspection and Navigation. The Coast Guard also assumes responsibility for all marine casualty investigations.

All training of maritime personnel, including officers and seamen, which has been a responsibility of the Maritime Commission, also becomes a duty of the Coast Guard under the Executive order. Licensing of officers and certificating of seamen, now a responsibility of the Bureau of Marine Inspection and Navigation, is placed under the control of the Coast Guard, and will be coordinated with the training program. Five State nautical schools in California, New York, Massachusetts, Maine, and Pennsylvania, aided by Federal grants, also come under the direction of the Coast Guard.

The functions of the shipping commissioners, which include supervision of the signing on and discharging of crews also are transferred to Coast Guard, as is the welfare of merchant seamen aboard vessels.

To the Commissioner of Customs, under the supervision and direction of the Secretary of the Treasury, are transferred those functions which pertain to the entrance and clearance, the registering and licensing, the admeasurement of vessels and the administration of tonnage duties. This involves largely the transfer of legal authority only, as the field forces of the Customs Bureau have always performed these duties.

The various units involved have been under study by the Bureau of the Budget for the past year, with the aim of securing better coordination and increasing their effectiveness in time of emergency.

Today's Order amalgamates two of the oldest agencies of Government. Coast Guard was established by the First United States Congress on August 4, 1790. Normally it functions under the direction of the Secretary of the Treasury, but in times of war or National emergency is transferred to the Navy. Coast Guard's recent transfer by the President to the Navy took place on November 1, 1941.

The Bureau of Marine Inspection and Navigation also traces its origin to laws passed by the First Congress and is an outgrowth of the Steamboat Inspection Service established in 1838.

The Executive Order is attached.

EXECUTIVE ORDER

Redistribution of Maritime Functions

By virtue of the authority vested in me by Title I of the First War Powers Act, 1941, approved December 18, 1941, and in order to expedite the prosecution of the war effort, it is hereby ordered as follows:

Section 1. Transfer of Functions of Bureau of Marine Inspection and Navigation

As provided in Sections 2 and 3 of this order, there are transferred to the Bureau of Customs and the United States Coast Guard all functions of: the Bureau of Marine Inspection and Navigation, the office of the director thereof, the offices of supervising inspectors, principal traveling inspectors, traveling inspectors, local inspectors, assistant inspectors, shipping commissioners, deputy shipping commissioners, and the Board of Supervising Inspectors, the Boards of Local Inspectors, the Marine Casualty Investigation Board, the Marine Boards, and those functions of the Secretary of Commerce which pertain thereto.

Section 2. Functions Transferred to Bureau of Customs

Those functions of the Bureau, Offices and Boards specified in Section 1, and of the Secretary of Commerce, pertaining to registry, enrollment, and licensing of vessels, including the issuance of commissions to yachts, the assignment of signal letters, and the preparation of all reports and publications in connection therewith; measurement of vessels, administration of tonnage duties, and collection of tolls; entrance and clearance of vessels and aircraft, regulation of vessels in the coasting and fishing trades, and limitation of the use of foreign vessels in waters under the jurisdiction of the United States; recording of sales, conveyances, and mortgages of vessels; protection of steerage passengers; all other functions of such Bureau, Offices and Boards which are now performed by the Bureau of Customs on behalf thereof; and the power to remit and mitigate fines, penalties and forfeitures incurred under the laws governing these functions, are transferred to the Commissioner of Customs, to be exercised by him under the direction and supervision of the Secretary of the Treasury.

Section 3. Functions Transferred to U. S. Coast Guard

Those functions of the Bureau, Offices and Boards specified in Section 1, and of the Secretary of Commerce, pertaining to approval of plans for the construction, repair, and alteration of vessels; approval of materials, equipment, and appliances; classification of vessels; inspection of vessels and their equipment and appliances; issuance of certificates of inspection, and of permits indicating the approval of vessels for operations which may be hazardous to life or property; administration of load line requirements; enforcement of other provisions for the safety of life and property on vessels; licensing and certificating of officers, pilots, and seamen; suspension and revocation of licenses and certificates; investigation of marine casualties; enforcement of manning

requirements, citizenship requirements, and requirements for the mustering and drilling of crews; control of log books; shipment, discharge, protection, and welfare of merchant seamen; enforcement of duties of shipowners and officers after accidents; promulgation and enforcement of rules for lights, signals, speed, steering, sailing, passing, anchorage, movement, and towlines of vessels and lights and signals on bridges; numbering of undocumented vessels; prescription and enforcement of regulations for outfitting and operation of motorboats; licensing of motorboat operators; regulation of regattas and marine parades; all other functions of such Bureau, Offices and Boards which are not specified in Section 2; and all other functions of the Secretary of Commerce pertaining to shipping which are not specified in Section 2, including the remission and mitigation of fines, penalties and forfeitures incurred under the laws governing these functions and those incurred under Public Law 351 of the 77th Congress, are transferred to the Commandant of the United States Coast Guard, to be exercised by him under the direction and supervision of the Secretary of the Navy.

Section 4. Transfer of Functions from Bureau of Customs

Those functions relating to the award of numbers to undocumented vessels, now vested in the Collectors of Customs, are transferred to the Commandant of the Coast Guard to be exercised by him under the direction and supervision of the Secretary of the Navy.

Section 5. Transfer of Training Functions from Maritime Commission.

Those functions of the United States Maritime Commission pertaining to establishing, developing, and operating the United States Maritime Service and the cadet and cadet officer training program; the prescribing of extension and correspondence courses, including the printing, publishing, and purchasing of textbooks, equipment and supplies required for such courses; the examination, inspection, rating, and certification of civilian nautical schools; the furnishing, maintaining, and repairing of vessels for the State Marine or Nautical Schools and administering grants of funds for the support of such schools and the jurisdiction over vessels, apparel, charts, books, and instruments loaned to such schools, are transferred to the Commandant of the United States Coast Guard, to be exercised by him under the direction and supervision of the Secretary of the Navy.

Section 6. Authority to Waive Navigation and Vessel Inspection Laws.

The authority vested in the Secretary of Commerce by Executive Order No. 8976, December 12, 1941, to waive compliance with the navigation and vessel inspection laws is transferred to the Secretary of the Navy and the Secretary of the Treasury, who shall exercise such authority with respect to the functions transferred to the United States Coast Guard and the Bureau of Customs, respectively.

Section 7. Transfer of Records, Property and Personnel

All records and property (including office equipment and floating equipment) of the Bureau of Marine Inspection and Navigation, the Department of Commerce, the Collectors of Customs, and the United States Maritime Commission used primarily in the administration of functions transferred by this order, and all personnel used primarily by these agencies in the administration of such functions are transferred to the respective agencies concerned, for use in the administration of the functions transferred by this order.

Section 8. Transfer of Funds

So much of the unexpended balances of appropriations, allocations, or other funds available or to be made available for the use of any agency in the exercise of any function transferred by this order, or for the use of the head of any agency in the exercise of any function so transferred, as the Director of the Bureau of the Budget with the approval of the President shall determine, shall be transferred to the agency concerned for use in connection with the exercise of the function so transferred. In determining the amount to be transferred the Director of the Bureau of the Budget may include an amount to provide for the liquidation of obligations incurred against such appropriations, allocations, or other funds prior to the transfer: Provided, That the use of the unexpended balances of appropriations, allocations, or other funds transferred by this order shall be restricted to the purposes for which such monies were appropriated.

Section 9. Effective and Termination Dates

This order shall become effective on March 1, 1942 and remain in force until the termination of Title I of the First War Powers Act, 1941.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE
February 27, 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 27 1942

TO Secretary Morgenthau

FROM Mr. Foley

Attached is some material on the Julian case which Joe O'Connell obtained for me.

As might be expected in this kind of a case, Julian and his friends and the caddy and his witnesses told conflicting stories. However, as near as I can make out, the basic facts are that during a golf game at Lake George, New York, Julian drove a ball on a road; that his caddy told him he could drop the ball back on the fairway without penalty; that an argument arose between Julian and his caddy over the application of the rule; that a scuffle ensued; and that during the scuffle Julian kicked the caddy and injured him, although not permanently.

The caddy claims that when he told Mr. Julian that he could place his ball on the fairway back of the road without penalty Julian started using abusive language toward him and raised a golf club as though he were going to strike him, that he thereupon grabbed the golf club and that in the ensuing struggle Julian kicked him in the groin.

Mr. Julian and his witnesses testified to the effect that the caddy cursed Mr. Julian vilely after Julian told him that he knew the rules, and that the caddy advanced toward Julian and attempted to grab a golf club out of Julian's hand, whereupon Julian's foot went out and the caddy fell down and said he was hurt. The jury apparently believed the caddy and his witnesses, because they rendered a verdict of $5,000 in favor of the caddy.

For your convenience, I have marked in red pencil the more significant parts of the attached material.

E. W. Th.

TREASURY DEPARTMENT

WASHINGTON

February 18, 1942.

Dear Ed:

Attached is a memorandum I received this morning from Mr. Conger on the case recently decided in Lake George involving Mr. Julian, Treasurer of the United States. I also enclose copies of the pleadings, as well as a number of newspaper clippings which Mr. Conger got while in Glens Falls.

As I told you, it would take a couple of weeks to get the complete transcript of the testimony of the trial. I think Mr. Conger has done a pretty workman-like job in getting the story pieced together so well.

Sincerely,

Hon. Edward H. Foley, Jr.
General Counsel
Treasury Department
Washington, D. C.

Enclosures.

MEMORANDUM

To: Mr. Henry Morgenthau, Jr.,
Secretary of the Treasury.

Subject: Leombruno v. Julian

By: Gerrit C. Conger.

The incident about which this case is concerned occurred on August 21,1941, in the afternoon. Issue was joined on the complaint on September 23,1941. A slightly amended complaint was filed as of a later date. Copies of the amended complaint and answer upon which the case was tried accompany this memorandum.

The trial began on January 28,1942, and a verdict was reached on January 30,1942.

The attorneys for the plaintiff were:

William C. Bullis, Lake George, New York.

Counsel to try the case: McPhillips, Fitzgerald and McCarthy, 190 Glen Street, Glens Falls, N.Y.

(Mr. Fitzgerald handled the actual trial work).

The attorney for the defendant was:

Judge J. Edward Singleton, 16 Ridge Street, Glens Falls, N.Y.

(Judge Singleton owns both the newspapers in Glens Falls, and it is believed that due to his influence much of the news of the affair was quieted).

The following persons testified as witnesses for the plaintiff:

1. The plaintiff himself, Theodore Leombruno, 18 years of age, of Bolton Landing, New York. Caddy.

2. Dr. D. L. Rogers, Bolton Landing, New York.

3. Dr. Leroy J. Butler.

4. John Mullaney, 17 years old, Queens, New York, St. John's Prep. Caddy.

5. William Mullaney, younger brother to John. Caddy.

6. Milton French, Bolton, N.Y. Caddy at clubhouse.

The following persons testified as witnesses for the defendant:

1. Milton B. Ignatius, Rutherford, N.J. Senior partner of Ignatius and Stone, New York City.

2. Frederick Brennig. Cigarette manufacturer.

3. Robert M. Harris, Commodity business, owner of real estate in Texas and Oklahoma.

4. The defendant himself, William A. Julian, Treasurer of the United States.

The Trial

Plaintiff's Case:

Mr. Julian and three friends were at The Sagamore Golf Club and had formed a foursome, consisting of Mr. Julian, Mr. Ignatius, Mr. Harris and Mr. Brennig. Four caddies accompanied them on the round. They were the plaintiff, John Mullaney, William Mullaney and Howard Tompkins. The latter was in Military Service at the time of the trial and was unable to testify.

On the fourth hole, a road intercepts the fairway at a point 197 yards from the tee. Mr. Brennig, Mr. Harris and Mr. Ignatius drove over this road. Mr. Julian drove last and his ball came to rest in the middle of the road. A local rule permits a player, whose ball is driven onto the road, to pick up the ball and replace it in the fairway without penalty. Leombruno said he told Julian that he could place the ball in the fairway without penalty. He testified further that Julian argued with him and used abusive language and told him that he, Julian, knew the rules. Julian then raised his club above his head as though he were going to strike Leombruno. The boy was holding the bag of clubs in his left

hand; he grabbed the club which Julian had upraised as it was coming down. Julian then kicked the boy in the crotch. The boy fell to the ground and writhed there in agony.

Ignatius then stepped up and told Julian to go on. Julian did go on and did not pay any further attention to the boy. Ignatius picked the boy up; he asked if he was hurt badly and walked him up and down a little. The boy then started back to the caddy house. He had to sit down several times on account of the pain.

Leombruno then went to see a doctor but the doctor wasn't at home. He then went before a Justice of the Peace (Truax of Bolton, N.Y.) to lodge a complaint. While he was there, Mr. Ignatius came. No warrant was issued.

Leombruno then went to see another doctor, Dr. Rogers, Coroner of Warren County.

Dr. D.L.Rogers testified in substance as follows:

Dr. Rogers treated the injury. He found a severe bruise in the scrotum. He"found the right testicle somewhat swollen and a spot on the scrotum about 2½ inches long, oval in shape and about 1½ inches wide at the widest place, which was red; it had common discoloration and had begun to turn black and a little brown."

Dr. Rogers also saw Leombruno the next day for treatment, and once more at a later date.

Dr. Butler testified in substance as follows:

Dr. Butler had examined Leombruno on the 9th or 10th of September and found signs of a residual bruise on the right side of the scrotum. The testicle was not enlarged perceptably at that time. There was tenderness in the testicle and in the spermatic cord. The injury could have been caused by a kick. There was no permanent injury.

William and John Mullaney told practically the same story that Leombruno did. None of these boys was a particularly close friend of Leombruno. The Mullaneys were spending the summer at Lake George, N.Y. John Mullaney testified that he heard Julian say as he kicked Leombruno: "I'll show you, you God damn brat."

Defendant's Case:

Mr. Ignatius described the game and where the balls went after driving. (There was here apparently a sharp issue of fact as to whether or not the ball had landed in the road on the drive or on Mr. Julian's second shot. The defense contending that it was the second shot, in which case the local rule does not permit a player to lift his ball without a penalty. From the defendant's attorney it was learned that all of the foursome agreed that they had failed to drive over the road, but had reached their positions on their second shots.) Mr. Ignatius said: "The first thing I heard was Mr. Julian saying, 'I know the rules here young man.' Julian walked a few paces forward. The boy threw the bag on the ground saying something only part of which I could hear. The part I heard was: 'I don't need your fucking dollar.' I stopped, called to the caddy and said, 'Come here young man, I would like to talk to you.' At that instant, Mr. Julien leaned down and picked up the bag and said, 'I don't want the boy to caddy for me any more.' I was walking toward the boy. Julian picked up the bag. At that moment the plaintiff shouted at the top of his voice, 'You can shove your God damn clubs up your ass.'

"Julian wheeled around saying, 'What do you say young man?' and began to walk towards him.

Julian was carrying the bag in one hand and the club he had used in the other. The boy took a few paces toward him; and came to a stop. Julian

was a little ahead of me. Then the boy grabbed Julian's club, the two parties standing facing each other. The boy had hold of the club and the other hand free. I stepped in to push him away. At that moment Julian's foot went out. Then the boy fell down and said he was hurt. My observation was that Julian's foot caught the boy at the outside of his thigh and slipped off. I said to Julian: 'Please go away and I will take care of the boy.' My caddy came up, and the two of us pulled the boy up and supported him. I asked him if he was hurt. I said to the boy: 'Just walk around a bit and let's make sure if you're hurt." Plaintiff pulled away and said: 'I'm going to send a fucking cop to get him.'"

Mr. Brennig testified that he didn't actually see any of the occurrence; that he didn't see Julian's club upraised, but that he had heard some of the talking.

Mr. Harris testified that he saw Julian's club up in the air. (Mr. Fitzgerald, plaintiff's counsel, describes Mr. Harris' testimony as follows: That Mr. Harris saw Julian approaching the boy, holding a club in his hand, and holding it pointed up in the air. Julian held the club so that his hand was about opposite his shoulder, with the club pointed upward. The boy held his ground and they came together. One of Julian's feet came out and gave the boy a kick and the boy went down. Mr. Harris stated that the boy stood still and Mr. Julian came toward him.

Mr. Julian testified that plaintiff grabbed his club; that he shoved plaintiff away with his foot trying to get the club out of his hands. Asked what part of boy his foot came in contact with, he answered: "I didn't examine his anatomy to see where I hit, pushed or shoved him." Later said to same question on cross-examination: "I am not sure."

Q. "Do you say that you didn't shove your foot right into his testicle?

A. No. I wouldn't say that.

Q. Where was the boy the last time you saw him?

A. On the ground."

All defendant's witnesses stated that plaintiff swore at Julian first. All the boys deny this.

The court charged in the matter of damages that the plaintiff could recover simple damages, and that the jury had the right to find punitive damages as well.

At the end of the case, counsel for Mr. Julian moved to have the verdict set aside on the ground that it was for excessive damages. (C.P.A. Sec. 549).

Argument on this motion was held on February 13,1942. No decision had been made as of February 16,1942, the last date on which your reporter gathered information.

Observations of Persons Interviewed in Glens Falls.

(It may be stated that although the actual trial took place in Lake George, the attorneys who tried the case, the Judge and the court reporter are all residents of Glens Falls, 8 miles from Lake George).

Mr. Arthur Weld, Court Reporter:

Mr. Julian has been in trouble at several places in the vicinity. He has been barred from the local club and been in difficulties with the hotel. His reputation is far from good.

The trial was not bitter.

Both attorneys were friendly.

Mr. Weld believes that the Judge will not set aside the verdict.

Mr. C. E. Fitzgerald, counsel for plaintiff.

Mr. Julian has a bad reputation for a hot temper.

Judge Singleton, counsel for defendant, is the most able trial lawyer in the vicinity - "a very high class fellow".

There wasn't an adverse ruling against Julian throughout the trial.

Mr. Harris had joined the party just for the day. His testimony killed the case for the defense.

The comment by Lowell Thomas on the radio incensed many people in the vicinity because it was garbled and unfair.

If Mr. Julian had showed a little human kindness and diplomacy the results might have been a lot different.

Mr. Fitzgerald cited this example of the character of Mr. Ignatius:

"Q. Mr. Ignatius, did you hear this boy say anything that in your judgment justified Mr. Julian in kicking the boy in the testicle?

A. Yes."

Mr. Fitzgerald then asked the jury, "Is that our code up here?" (meaning that it was a hit below the belt.)

As an indication of Mr. Julian's temper, Mr. Fitzgerald said this: "Julian is a soft-spoken fellow. You wouldn't think he ever got excited, but when I inadvertently asked him two questions before he had answered the first, Julian pointed his finger at me and said: 'Young man, young man, you wait right where you are.'"

Judge Singleton, counsel for defendant.

The plaintiff wanted to carry two bags. Julian wanted a single caddy. As a result of this plaintiff was disgruntled.

Judge Singleton believes it is practically impossible for these men to have driven from the tee over the road, i.e., more than 200 yards.

Judge Singleton gives the following version of the episode: Mr.

Julian had picked up the ball from the road and brought it back onto the fairway. He had in his hand a #4 wood. This indicates that his preceding shot was not a drive. The boy then said in a nasty tone: "You can't do that." Julian claims he said, "Boy, I know the rules" and walked on. He then heard the noise of the caddy throwing the clubs to the ground and saying he didn't want the dollar; he refused to go further.

Mr. Julian then picked up the clubs and started down the fairway.

Mr. Ignatius then came up and asked what the trouble was. The boy told him he wouldn't carry the clubs, to which Julian replied: "What did you say? What did you say?"

The boy grabbed the club. Ignatius thought that Mr. Julian had raised his foot to push the boy away and had hit him on the outside of the thigh.

Since the incident occurred about 1/2 mile from the caddy house the boy could not have told the truth about having to sit down every ten feet on his way back, because twenty minutes later the pro came out in a car and met the party. The boy would not have had time enough to do what he said he did.

Mr. Ignatius insisted that the boy go to see a doctor. He gave him money for the doctor's fee and $5.00 for his loss of time.

The next day Ignatius went to the boy's home, but the boy was not there although the boy claimed he was confined to his home.

Attorney Bullis and Ignatius attempted to settle the case. They agreed first on $100.00. Because the boy was a minor they could not make this stick. At each later date, the amount was raised, - $500., $750., $1500., and the last demand was $3,000.

Your reporter conversed for a few moments with Judge Imrie who tried the case. Judge Imrie appeared to be a man of sound and careful judgment.

Respectfully Submitted,

Gerrit C. Conger

Gerrit C. Conger,
Treasury Representative
at General Aniline Works,
Rensselaer, New York.

GCC:HMG

Copy

Fol.1 STATE OF NEW YORK

SUPREME COURT WARREN COUNTY

THEODORE LEOMBRUNO, an infant, by FRANK LEOMBRUNO, his guardian ad litem,

Plaintiff,

-against-

WILLIAM A. JULIAN,

Defendant.

The plaintiff, for an Amended Complaint herein, alleges upon information and belief:

1. That at all the times hereinafter
2 mentioned the plaintiff was and still is an infant under the age of twenty-one years.

2. That, by an order of this Court duly made on the 2nd day of September, 1941, and entered in the office of the Clerk of the County of Warren, on the 4th day of September, 1941, the above named Frank Leombruno was duly appointed guardian ad litem of the above named Theodore Leombruno, an infant, for the purpose of instituting and prosecuting this action.

3. That at all the times hereinafter
3 mentioned the plaintiff was and still is a resident of the Town of Bolton, County of Warren and State of New York.

4. That on or about the 21st day of August, 1941, the plaintiff herein was acting as a caddy on the Golf course commonly called "The Sagamore Golf Course"

4 at Bolton Landing on Lake George, New York, and was caddying for the defendant, William A. Julian.

5. That while this plaintiff was acting as caddy and accompanying the defendant, and when on, at or near the fourth hole, the defendant drove his golf ball out of the regular fairway and onto a road; that this plaintiff suggested to the defendant the rules of the course permitting him to place his golf ball in a more favorable location; that the defendant became abusive and threatening, and did unlawfully, violently, viciously wantonly, recklessly, wilfully and maliciously assault and
5 beat this plaintiff and with a design to injure this plaintiff, in that he did attempt to strike this plaintiff in and about the head with a golf stick, and did kick this plaintiff in and about his private organs; that this plaintiff received serious bruises, contusions, lacerations and abrasions in and about his testicles, scrotum and other private organs, became nauseated, passed blood, and was injured internally and externally, and, as plaintiff is advised and verily believes, said injuries may be permanent; that this plaintiff also suffered great physical and mental pain and agony, and,
6 as he is advised and verily believes, said physical, mental and nervous pain and agony will continue in the future, and may be permanent.

6. That as a result of said assault, the plaintiff has been unable to work or attend to his usual duties; he has been required to procure medical care and attention, liniments, bandages and other medical supplies, and will, in the future, be required to

7 procure further medical care and attention, and medical supplies, in efforts to obtain a cure of said injuries.

7. That the plaintiff is married, living separate and apart from his father, and, by agreement with his father, is caring for and supporting himself, paying his obligations, and entitled to his time and earnings.

8. That by reason of the premises, the plaintiff has been damaged in the sum of Ten Thousand ($10,000.00) Dollars.

8 WHEREFORE, plaintiff demands judgment against the defendant in the sum of Ten Thousand ($10,000.00) Dollars, with costs and disbursements of this action.

W.W.BULLIS,
Attorney for Plaintiff,
Office & P.O.Address,
283 Canada Street,
Lake George,New York.

STATE OF NEW YORK, }
County of Warren, } ss.:

FRANK LEOMBRUNO, being duly sworn, deposes and says that he is the plaintiff in this action; that he has read the foregoing Amended Complaint and knows the contents thereof; that the same is true to the knowledge of deponent, except as to the matters therein stated to be alleged on information and belief, and that as to those matters he believes it to be true.

Frank Leombruno

Sworn to before me this
27th day of October, 1941.

William W. Bullis
Notary Public.

ANSWER TO AMENDED COMPLAINT

STATE OF NEW YORK
SUPREME COURT.-Warren County.

THEODORE LEOMBRUNO, an infant, by
FRANK LEOMBRUNO, his guardian ad litem,

Plaintiff,

-vs-

WILLIAM A. JULIAN,

Defendant.

For answer to the Amended Complaint of the plaintiff herein, the above named defendant denies each and every allegation in said complaint contained.

II

FOR A FIRST SEPARATE AND COMPLETE DEFENSE DEFENDANT ALLEGES: That at the time mentioned in the complaint the plaintiff attempted an assault upon the defendant and from the threatened acts would have beaten and otherwise injured and ill-treated him if defendant had not immediately defended himself against the acts of the plaintiff who was the aggressor; that thereupon defendant defended himself,as he lawfully might and if plaintiff sustained any damage,it was occasioned solely in defendant's endeavor in self-defense to protect himself against injury from plaintiff's acts.

III

As a partial defense and in mitigation of damages,the above named defendant alleges: That the defendant had just provocation for whatever force or violence he used against plaintiff; that plaintiff at and prior to the time of the commission of the acts mentioned in the complaint had applied vile and insulting epithets

and other words to defendant with intent to bring about an assault.

WHEREFORE, defendant demands judgment dismissing the amended complaint herein with costs.

J. EDWARD SINGLETON,
Attorney for Defendant,
Office & P.O.Address:
16 Ridge St.,Glens Falls,N.Y.

Glens Falls Times – 1/28/42.

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Trial Started in Suit Brought by Caddy Against Wm. A. Julian, Treasurer of the United States

[illegible] whose name appears on [illegible] of paper money issued [illegible] United States Government, [illegible] Julian, Treasurer of the [illegible] is the defendant in [illegible]-year-old golf caddy's $10,000 [illegible] action in which trial was [illegible] in Supreme Court at Lake [illegible] today. The caddy, Theodore [illegible] of Bolton Landing, contends Julian struck him at the Sagamore Golf Club at that place last [illegible] and seriously injured him.

The alleged assault occurred Aug. [illegible] at the fourth hole, where a [illegible] road crosses the course. Leombruno alleges that he politely attempted to advise Mr. Julian of a [illegible] governing the placing of a ball in the road and that an altercation followed.

Mr. Julian at the time was playing in a foursome with Milton B. Ignatius, prominent New York attorney, and two other friends, Robert Harlan and Frederick Brunig of New York City. Mr. Ignatius is senior partner in the firm of Ignatius and Brunig, the latter partner being a son of Mr. Justice F. Stone, Chief Justice of the United States. All four members of the foursome are attending the trial.

[illegible] Edward Singleton [illegible] case for the defense [illegible] in his opening [illegible] jury that the [illegible] fourth hole provides that a player whose tee shot goes into the road may lift the ball and place it on the fairway without penalty, and that it was Mr. Julian's second shot which landed in the road. The plaintiff contends that the government official's first shot was in the road.

At the start of the trial, Justice Daniel P. Imrie of this city, presiding, said counsel had informed him that some of the language which would be used in the case would be obscene and vulgar and he suggested that women spectators leave. All but two departed.

Leombruno, the first witness testified that when Mr. Julian's first shot on the fourth hole fell into the road he said to the player:

"Sir, you have a right to move the ball back out of the road without a penalty."

"Never mind the —— ball, you just carry the clubs," Leombruno quoted the government official as replying.

The caddy testified that he attempted to explain to Mr. Julian that he was just trying to help but that an exchange of words followed, after which Mr. Julian swung a golf club at the caddy's head. Leombruno said he grabbed the club and prevented the blow, but that then the player kicked him. As a result of the injury he sustained, he was

(Continued on Page Nine.)

Trial Is Started in Caddy's Suit Against Government Official

(Continued from Page Two.)

confined to his home for three weeks, suffering constant pain, was unable to work for six weeks, and suffered a renewal of the pain on Monday of this week, he testified.

Cross examination of the plaintiff was deferred until this afternoon. In its opening, the defense, after stating that Mr. Julian's tee shot was poor and that his second shot landed in the road, asserted that Leombruno spoke up just as the player was about to hit the ball for his third shot. It was asserted that Mr. Julian made no attempt to hit the caddy, but that the latter grabbed a club Mr. Julian had in his hands and a scuffle followed, during which the player placed his leg against Leombruno to brace himself and pulled on the club.

W. W. Bullis of Lake George is attorney of record for Leombruno, with Attorney C. E. Fitzgerald of McPhillips, Fitzgerald and McCarthy, this city, as trial counsel. Mr. Singleton is being assisted by Attorney Harry H. Singleton and Mr. Ignatius.

A jury reported a disagreement in a sealed verdict returned this morning in the negligence action brought by Harry Baldwin of the Glens Falls-Corinth road against Mrs. Josie L. DeLong and her son, Robert, of Corinth. The jury, of which William Bartlett of Thurman was foreman, deliberated from 2:10 P. M. yesterday until after 8 last evening before it was decided the deadlock could not be broken. Justice Imrie discharged the jurors.

Baldwin sought to recover for injuries suffered October 1, 1941, when he was struck by an automobile owned by Mrs. DeLong and operated by her son. Baldwin was a pedestrian, and not, as previously reported, driving a car. He was represented by Attorney John W. Miller of the firm of Miller and Ringwood, and Attorney J. Clarence Herlihy represented the defendants.

Justice Imrie yesterday granted a judgment in default of $100 and costs to Cornelius Grady of Glens Falls in a contract action against Benjamin Kramer. City Judge Raymond E. A. Loughlin appeared for Grady.

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GLENS FALLS POST STAR - 1/29/42.

Caddy's $10,000 Suit Continues at Lake Today

[illegible] of a $10,000 action to recover for personal injuries which [illegible] Leombruno, 18, a Bolton [illegible] caddy, contends were inflicted upon him by William A. [illegible] president of the United States during a round of golf last Aug. 21 at the Sagamore Golf Club, will be continued at 10 A. M. today before Justice Daniel F. Imrie and a jury in Supreme Court at Lake George.

Yesterday, most of which was consumed in the presentation of the plaintiff's case, brought forth a variety of observations on the subject of golf in general. More particularly, it centered upon what happened on the fourth tee of the Sagamore course and upon the extent of Leombruno's injuries.

Prior to the trial of the case, a jury deadlocked, a disagreement in a similar action returned yesterday morning in a negligence action brought by Harry Baldwin of the Glens Falls-Corinth Road against Mrs. Lou L. DeLong and her son, [illegible] of Dorloth. Judge Imrie discharged the jury which had deliberated from 2:10 until 8 P. M. [illegible] Baldwin sought to recover [illegible] received when the DeLong car owned by Mrs. DeLong [illegible] by her son, hit him Oct. [illegible] as he was walking along the [illegible] Attorney John W. Miller of Miller and Ringwood represented Baldwin and Attorney J. Clarence Herlihy, the defendants.

The action against Mr. Julian arose from an altercation between himself and his caddy as Mr. Julian, Milton B. Ignatius, New York attorney, and two other friends were playing the Sagamore course. The other members of the foursome were Robert Harris and Frederick Brennig of New York. Ignatius is senior partner in the law firm of Ignatius and Stone. The entire foursome is attending the trial. Attorney W. W. Bullis of Lake George is attorney of record for Leombruno with C. E. Fitzgerald of McPhillips, Fitzgerald and McCarthy, trial counsel. Attorney J. Edward Singleton is counsel for Mr. Julian, assisted by Attorney Harry H. Singleton.

The progress of the game had apparently been as serene as golf ever can be until the foursome and its convoy of caddies reached the fourth tee. This is a long hole and the fairway is cut about 197 yards from the tee by a dirt road. According to the club rules, if the drive from the tee lands in the road, the ball may be lifted without penalty.

Leombruno, the first witness, testified that when Mr. Julian's drive from the fourth tee fell into the

(Continued on Page Two.)

$10,000 Action Against Julian Continues Today

(Continued from Page Two.)

road he said to him, "Sir, you have a right to move the ball back out of the road without a penalty."

"Never mind the—ball, you just carry the clubs," Leombruno quoted Mr. Julian as replying. The caddy said his attempted helpful explanations presently led to an exchange of words at the height of which Mr. Julian swung a golf club at his head. Leombruno said he grabbed the club to avoid the blow, and then was kicked. The nature and intensity of the injury was such, he said, that he was confined to his home for three weeks, suffering intermittent pain, was unable to work for six weeks, and suffered a renewal of the pain last Monday.

One of yesterday's points of contention was whether or not the drive in question was Mr. Julian's first or second shot. On cross-examination, Leombruno asserted that the ball dropped 10 or 12 feet from the road and rolled in. Mr. Ignatius, testifying late in the afternoon, declared the defendant's first shot landed in some grass and his second went into the road. In this case, the player would not have benefited by the club rule. In contradiction to Mr. Ignatius, who testified none of the foursome drove over the road, four caddies, William Mullany, 15, his brother John, 17, both of Queens, L. I., Howard Tompkins, 16, of Lake George, and Milton French, 16, of Bolton Landing, said Mr. Ignatius, Mr. Harris and Mr. Brennig all drove over the road while Mr. Julian's ball fell into it.

Dr. Daniel L. Rogers of Bolton, who was called to attend Leombruno, described the swelling and discoloration of the injury. He said he last treated the plaintiff on Sept. 12. In response to a query by Mr. Fitzgerald he said the injury would be a competent producing cause of immediate pain, and possibly future pain.

Cross-examined by Mr. Singleton, Dr. Rogers stated that he wrote the State Compensation Commission on Sept. 18, stating that, "The best that I can see is that he (Leombruno) is all right."

Dr. Leroy J. Butler of Glens Falls, witness for the defense, stated he examined Leombruno on Sept. 9 and 10 and found a residual bruise but did not believe the plaintiff suffered permanent injury. He, too, agreed that the injury might cause future pain.

Leombruno, under cross-examination, admitted that he was married on Sept. 1, 10 days after the injury. After introduction by the defense of a card written by the plaintiff Sept. 18 to the Globe Indemnity Company regarding workmen's compensation and stating he was able to work, Leombruno testified he was able to chop wood the latter part of that month but that recurrence of pain presently made him cease that work.

Bolton Landing Caddy's Suit to Collect $10,000 from Treasurer of United States Goes to Jury

Supreme Court Justice Daniel F. [illegible] this afternoon made his charge to the jury in Supreme Court at Lake George in the $10,000 action [illegible] brought by Theodore Leombruno, 18, Bolton Landing caddy, against William A. Julian, treasurer of the United States, and arising from a dispute during a game of golf at the Sagamore Golf Club on August 21, 1941.

Leombruno is seeking to collect the money he claims he received [illegible] on alleged unprovoked attack on Mr. Julian on the fourth hole of the course. He is represented by Attorney W. W. Bulle of Lake George with Attorney C. E. Fitzgerald of McPhillips, Fitzgerald and McPhillips of this city as trial counsel. The defendant is represented by Attorney J. Edward Singleton, assisted by Attorney Harry H. [illegible]

The alleged assault is said to have [illegible] out of an exchange of words concerning Mr. Julian's playing of a golf ball lay in a road crossing [illegible] on the fourth hole. Mr. Julian testified he picked the ball up in accordance with course rules, and placed it on the grass. Leombruno [illegible] testified that Mr. Julian at some time after he called the golf [illegible] attention to the fact that the ball had been moved out of the [illegible]

[illegible] Julian testified, the [illegible] "You can't do that." [illegible] Julian said he replied, "I know [illegible] young man." Milton [illegible], New York attorney, who [illegible] with Mr. Julian, [illegible] that portion of [illegible] Mr. Julian further [illegible] that he made his third shot, he heard his golf bag drop to the ground behind him.

"I don't have to carry your — — clubs, and I don't want your — — dollar," the defendant stated he heard his caddy mutter. Mr. Julian stated he became incensed at that breach of courtesy between golfer and caddy, but only turned and picked up the bag of clubs. This, Mr. Julian testified, brought another remark from the caddy.

Mr. Julian said he then approached the caddy and asked, "What is that you said?" He added that his bag of clubs was in his left hand and the club he was using in his right. The defendant testified the boy grasped the club as he raised it and that he placed his knee against the caddy's body to wrench it free. It was then that the boy dropped to the ground.

Mr. Julian testified that Mr. Ignatius then approached him and urged, "You go right on with your game, I will look after the boy."

Mr. Ignatius, Robert M. Harris, a Queens commodity merchant and an Oklahoma ranger, and Frederick Breinig, New York cigarette manufacturer, all members of the foursome, corroborated Mr. Julian's testimony in general.

Justice Imrie, sustaining the objections of defense counsel, halted several attempts on the part of Attorney Fitzgerald to draw from Mr. Julian information as to his salary as United States Treasurer, his total income and the amount of property he owns.

Mr. Ignatius fell victim of a barrage of criticism during cross-examination after he had presented his version of how he believed the caddy may have been injured, which differed somewhat from his direct testimony in which he described merely what he had seen. However, defense counsel explained to the court that the version had been discussed previous to the trial and discounted as it was not then considered competent evidence.

Four caddies who upheld Leombruno's version of the incident were William Mullany, 15, and his

(Continued on Page Eight.)

Action of Caddy to Collect $10,000 Is in Hands of Jurors

(Continued from Page Two.)

brother, John, 17, both of Queens, L. I., Howard Tompkins, 16, of Lake George, and Milton French, 16, of Bolton Landing.

A portion of yesterday's session was devoted to medical testimony concerning the injury allegedly suffered by Leombruno. Dr. Daniel L. Rogers of Bolton Landing, who treated the caddy, described the injury and termed it a competent producing cause of immediate pain and possible future pain. Dr. Leroy J. Butler of Glens Falls testified he did not believe the caddy suffered a permanent injury, but agreed that the injury might cause future pain.

Glens Falls Post Star - 1/30/43.

VERDICT OF $5,000 IS GIVEN CADDY AT LAKE GEORGE

Bolton Youth Granted Sum in Action Brought Against William Julian

A verdict of $5,000 in favor of Theodore Leombruno, 18 year old Bolton Landing caddy who was suing William A. Julian, treasurer of the United States, for personal injuries inflicted during a golf course dispute, was returned by a Warren County Supreme Court jury yesterday afternoon at Lake George after 45 minutes deliberation. Justice Daniel F. Imrie reserved decision on a motion by J. Edward Singleton, attorney for the defense, to have the verdict set aside.

The two-day case arose from the caddy's accusation that Mr. Julian kicked him during an argument last August on the fourth hole of the Sagamore Golf Club at Bolton Landing. During the first day's testimony on Wednesday, Leombruno said the dispute started after he interrupted Mr. Julian's play to tell him he could take advantage of a club ruling which would permit him to lift his ball from a roadway and return it to the fairway without penalty. He said the defendant swung at him with a golf club and then kicked him.

Testifying yesterday, Mr. Julian declared that he was picking his ball up in accordance with the club rule and that Leombruno declared, "You can't do that."

Mr. Julian said he replied, "I know the rules here, young man." Milton H. Ignatius, New York attorney, who was in a foursome with Mr. Julian, testified he heard that portion of the conversation. Mr. Julian further testified that just as he made his third shot, he heard his golf bag drop to the ground behind him.

"I don't have to carry your — — clubs, and I don't want your — — dollar," the defendant stated he heard his caddy mutter. Mr. Julian stated he became incensed at that

(Continued on Page Six.)

Verdict of $5,000 Is Given Caddy At Lake George

(Continued from Page Two.)

breach of courtesy between golfer and caddy, but only turned and picked up the bag of clubs. This, Mr. Julian testified, brought another remark from the caddy.

Mr. Julian said he then approached the caddy and asked, "What is that you said?" He added that his bag of clubs was in his left hand and the club he was using in his right. The defendant testified the boy grasped the club as he raised it and that he placed his knee against the caddy's body to wrench it free. It was then that the boy dropped to the ground.

Mr. Julian testified that Mr. Ignatius then approached him and urged, "You go right on with your game, I will look after the boy."

Mr. Ignatius, Robert M. Harris, a Queens commodity merchant and an Oklahoma ranger, and Frederick Brennig, New York cigarette manufacturer, all members of the foursome, corroborated Mr. Julian's testimony in general.

Justice Imrie, sustaining the objections of defense counsel, halted several attempts to draw from Mr. Julian information as to his salary, his total income and the amount of property he owns.

Jurymen hearing the case were: Glen Olson, Queensbury; Mack Bolton, Horicon; Charles Jenkins, Luzerne; Isador Mayer, John Pelletier, Woodruff Carter, George Akins, Glens Falls; Henry Wescott, William Bartlett, Beecher Cameron, Thurman; Frost Phelps, Chester; and Jerome Reynolds, Warrensburg.

W. W. Bullis of Lake George was attorney of record for Leombruno with C. E. Fitzgerald of McPhillips, Fitzgerald and McCarthy of this city, trial counsel. Mr. Singleton was assisted by Attorney Harry H. Singleton.

The case of Mae Mutter against Lewis A. Crandall and others, to set aside a deed was started and a jury selected. It will be resumed at 10 A. M. today. Mr. Bullis is attorney for the plaintiff with Attorney John R. S. McNally of Warrensburg appearing for the defense.

CADDY GIVEN $5,000 AWARD FOR INJURIES

Court Reserves Decision on Motion to Set Verdict Aside

A motion to set aside a $5,000 verdict returned by a jury in Supreme Court at Lake George late yesterday afternoon in favor of an 18-year-old Bolton Landing golf caddy against William A. Julian, treasurer of the United States, was pending today before Justice Daniel F. Imrie. It was indicated that the court's decision would be reserved until he has an opportunity to examine the record.

Recipient of the verdict was Theodore Leombruno, who alleged that Julian kicked him, causing serious injuries, during an altercation at the Sagamore Golf Club at Bolton Landing last August. Leombruno was represented by Attorney C. E. Fitzgerald of McPhillips, Fitzgerald and McCarthy, this city, trial counsel, and Attorney W. W. Bullis of Lake George, of record. Attorney J. Edward Singleton of this city represented Mr. Julian, with Attorney Harry H. Singleton of counsel.

The jury deliberated only 45 minutes before returning its verdict.

Trial was started today in an action brought by Mrs. Mae Butler of Warrensburg against Lewis A. Crandall, nephew of the late Attorney and Mrs. Lewis E. Crandall of that place, to set aside a deed. The plaintiff contends that Mrs. Crandall was incompetent at the

(Continued on Page Thirteen)

Caddy Is Given Verdict of $5,000 in His Action Against U. S. Treasurer

(Continued from Page Two.)

time she signed a deed conveying to Mr. Crandall property at Warrensburg which he, at his death two days prior to Mrs. Crandall's in 1941, left to her.

W. W. Bullis of Lake George is attorney of record for Mrs. Butler, with Judge James McPhillips and Attorney C. E. Fitzgerald trying the case. Attorney John R. S. McNally of Warrensburg represents Mr. Crandall, with Attorney Elihu B. Geraghty, also of Warrensburg, of counsel.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 27 1942

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with existing instructions, there is submitted herewith a summary report of studies and projects carried on by the Legal Staff for the months of October and November, 1941.

Attachment 5.1.7L

SUMMARY REPORT ON STUDIES AND PROJECTS IN THE OFFICE OF THE GENERAL COUNSEL - OCTOBER AND NOVEMBER 1941

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Maritime Unemployment Insurance Bill. Hearings on the Maritime Unemployment Insurance Bill, H. R. 5446 (77th Cong., 1st sess.), were held by the House Committee on Merchant Marine and Fisheries on September 30 and October 2, 1941. Numerous witnesses for labor and for ship owners testified. Representatives of labor supported the bill, but most of them advocated that one system only be established covering both deep-sea and inland-waters services, administered by the Railroad Retirement Board. If this were done, the Bureau of Internal Revenue apparently would not administer any portion of the system. The ship owners opposed the bill in its present form; but some of them approved unemployment insurance for the seamen with changes from the system provided in the bill. The principal changes would remove liability of the ship owners to bear the cost of unemployment of the vast numbers of seamen hired only for the emergency, and would eliminate unemployment benefit payments to men who voluntarily quit or are discharged for misconduct. Chairman Bland stated that interested persons would be privileged to file written

statements and briefs until October 25, 1941, and that Government witnesses would be heard when the Committee commences executive consideration of the bill.

2. Recapture of Profits Derived from National-Defense Contracts. H. R. 5781 was introduced on October 7, 1941 by Mr. Vinson of Georgia, to provide for the recapture of profits derived from national-defense contracts which are in excess of 7% of the cost of contracts completed within the taxable year. A somewhat similar bill was introduced on October 6, 1941 by Mr. Gore, H. R. 5759, but with reference to profits in excess of 8% of the cost, rather than 7%.

3. Internal Revenue Tax Liabilities in Certain Court Proceedings. In order that all internal revenue tax liabilities in certain court proceedings might be readily determined and the collection thereof assured, a Confidential Print entitled "Procedure in Bankruptcy, Receivership, Dissolution and Transferred Asset cases, including Proof of Claim Procedure" was published in 1931, revised in 1933 and issued for the guidance of officials and employees of the Bureau of Internal Revenue. The revised edition is in current use but because of recent court decisions, changes in

the bankruptcy and internal revenue laws, and the issuance of various mimeographs, a considerable part of the Print is now obsolete. A survey is being made of all acts, mimeographs and decisions relating to the subject matter contained in the Print with a view to determining what part of the publication should be revised and what part revoked.

4. Old-Age and Survivors Insurance Coverage for National Catholic Welfare Conference. A conference was held at the Willard Hotel on November 5, 1941, with representatives of the National Catholic Welfare Conference, Treasury Department, Social Security Board, and Bureau of Internal Revenue. The N.C.W.C. desires legislation to cover religious, charitable, educational, etc., organizations and their employees under the old-age and survivors insurance system without infringing upon the tax exempt status which those organizations have in general enjoyed. They suggested this could be accomplished by placing the organizations and employees under the existing system, but (1) provide for direct payment of employer and employee contributions into the Federal Old-Age and Survivors Insurance Trust Fund by the organizations; (2) provide that an organization and its employees would be covered only if the organization so elected, such election to be irrevocable;

and (3) provide some declaration of policy in the law that the payments by the organizations and their employees are for old-age and survivors insurance. They stated further that the problem would be eliminated if a separate system could be set up in which "taxes," as such, would not be involved, and the compulsory contributions would be collected by an agency other than the Bureau of Internal Revenue. Such a separate system, they felt, would be analogous to compulsory workmen's compensation. They stated that the organizations have not objected to compulsory coverage under workmen's compensation laws.

5. Tax Convention, Canada and the United States. Conferences beginning on October 30, 1941 and ending on November 8, 1941 have taken place between the Canadian revenue and other officials representing Canada, Mr. H. R. Turkel of the State Department, and Mr. Roy Blough, Mr. E. P. King and Mr. P. J. Mitchell. As a result there has been developed a draft of a comprehensive tax convention between the two countries embodying the following major phases: (1) Reduction, reciprocally, in the rate of income tax from 27 1/2 percent to 15 percent in the case of Canadians; (2) restriction or elimination of allegedly extra-territorial taxation by the United

States as applied to Canada; (3) exchange of information and cooperation in the field of taxation between the two countries; and (4) solution of pending taxation problems primarily relating to taxable years prior to the Revenue Act of 1936.

6. Old-Age and Survivors Insurance Coverage for Workers in Plants Taken Over by the Government. On November 13, 1941, a conference was held in the office of Assistant General Counsel Calhoun, Federal Security Agency, relating to old-age and survivors insurance coverage of workers in plants taken over by the Government. Such workers are not now covered since services in the employ of the United States are excluded under existing law. The Secretary of the Navy has requested that the necessary proposed legislation be drafted. Present at the conference were Mr. Calhoun, Mr. John H. Vincent, Navy Department, Lt. Col. E. M. Brannon, War Department, and Mr. Ned W. Arick of the Chief Counsel's office. Col. Brannon stated that workers in plants taken over by the Secretary of War should have the same coverage as workers in plants taken over by the Secretary of the Navy. Two plants are currently involved, but the request is that

legislation be broad enough to cover plants taken over in the future, if any. The two are the Federal Shipbuilding & Drydock Company, Kearny, N. J., and the Bendix, N. J. plants of Air Associates, Inc. Coverage under the Federal Unemployment Tax Act does not appear to be desired, although they wish coverage under State unemployment compensation laws.

The following work was done under the supervision of Assistant General Counsel Cairns:

7. Steps Taken to Prevent Sabotage. A plan was devised whereby the Coast Guard will have authority to extend its protection against sabotage and other depredations to piers, wharves, and other water front property by preventing the mooring of vessels at such facilities where dangerous circumstances exist, and by placing Coast Guard personnel on shore to guard such facilities in situations where the former method would be impracticable. Such extension of authority rests upon a combination of the powers conferred upon the Secretary of the Treasury under section 1, Title II of the Espionage Act of June 15, 1917 (U.S.C. title 50, sec. 191), and upon the President as Commander-in-Chief of the armed forces by

Article II of the Constitution. This study was made by Mr. Harrison in cooperation with administrative officers of the Coast Guard.

8. Mail Service for Coast Guard. By section 9 of the Act of July 11, 1941 (Public, No. 166, 77th Congress), provision was made for the establishment of postal facilities on ships and at shore stations of the Coast Guard, similar to the system previously authorized for and existing in the Navy, including the designation of mail clerks and assistant mail clerks to carry on these duties. A study was necessary to arrive at proper regulations and instructions to govern the conduct of such persons in the performance of their postal duties and for cooperation with the postal authorities. In the course of this study it was determined that with the approval of the Post Office Department, to meet conditions existing in the Coast Guard, the instructions heretofore worked out and approved for use in the Navy might be adapted to and utilized by the Coast Guard, thus avoiding much labor, delay and expense. The matter has thus been presented to the Postmaster General, with draft of an order for promulgation by him. This study was conducted by Mr. Harman of the

Legal Section in cooperation with administrative officers of the Coast Guard.

9. Promotion Plan for Civilian Keepers of Lighthouses. A study was made to devise a system for the administrative (within-grade) promotion of civilian keepers of lighthouses. This group of personnel does not come within the provisions of the Salary Advancement Act of August 1, 1941, by reason of the fact that it was excepted from the operation of the Classification Act of 1923, as amended, by the Act of August 26, 1937. By the latter Act authority to regulate the classification and pay of keepers of lighthouses, which is construed to include provision for their promotion, is vested in the head of the Department. The study consisted of adapting the principles and rules contained in the Act of August 1, 1941, with respect to personnel subject to the Classification Act of 1923, as amended, to keepers of lighthouses, so far as analagous conditions render them applicable, and the drafting of regulations governing the subject, which were submitted to the Department and promulgated by the Acting Secretary of the Treasury. This study was conducted by Mr. Harman of the Legal Section of the Coast Guard.

10. Legislation. Mr. Wolf of this office prepared letters

transmitting to the Speaker of the House and the President of the Senate a proposed bill, "To authorize the Secretary of the Treasury to order to the United States on their statutory leaves of absence officers and employees serving abroad, and to govern the payment of traveling expenses and duties while on leave, and for other purposes." There were incorporated in the proposed bill suggestions made by Mr. Bernard in connection with a previous draft prepared in this office. The primary purpose of the proposed bill, as stated in the letters of transmittal, is to place employees of the Department serving abroad on a plane of equality, as respects traveling expenses, with employees of other Departments serving abroad.

Messrs. Chambers and Morton of this office prepared reports to the Senate and House Committees on Banking and Currency on S. 1914 and H. R. 5667, bills identically entitled "To exempt strategic and critical materials from customs duties in certain cases, and for other purposes." The bills would amend section 5d of the Reconstruction Finance Corporation Act by exempting from duty materials imported by R.F.C. defense corporations if such materials are certified by the Federal Loan Administrator to be strategic and critical.

The reports state that if certain suggested amendments of a clarifying nature are made, this Department would anticipate no unusual administrative difficulties.

Messrs. Chambers and Morton also prepared a report to the Director of the Budget, reporting at his request on a bill to be proposed by the Navy Department "To amend the act entitled 'An act further to promote the defense of the United States, and for other purposes,' approved March 11, 1941." This bill would add a new section to the Lend-Lease Act exempting from duty articles imported in connection with the administration of section 3 of that Act, and certified by a department or agency of the Government to be a defense article within the meaning of the Act. The report stated that if certain suggested amendments of a clarifying nature were made, this Department would anticipate no unusual administrative difficulties.

11. Overtime Compensation. In letters addressed to the Bureau of Customs, the assistant collectors at Cleveland and Norfolk inquired whether overtime compensation for part-time employees, under U.S.C. title 19, sec. 267 (providing that the rate of overtime compensation of customs officers and employees shall be fixed on the basis of one-half day's

additional pay for each two hours of overtime or fraction thereof of at least one hour), should be computed on the basis of the daily pay actually received by the part-time employee or on the basis of the daily pay which the employee would receive if he were employed full time in a position with similar duties and responsibilities. Mr. Wolf prepared a memorandum in which it was concluded that the basis of computation should be the daily pay which the part-time employee would receive if he were employed full time. In the memorandum it was reasoned that the overtime statute was intended to establish a rate of pay for overtime services which rate would be higher than the rate of pay for services performed during regular working hours. Since the use, in computing overtime compensation, of the daily pay actually received by the part-time employee would result in the payment for overtime services at a much lower rate of pay than for regular services, that method of computation was rejected.

12. Litigation. In the case of Howard C. Myers v. United States, mentioned in several previous reports, the Court of Claims, on October 17, 1941, on its own motion, set aside its opinion of January 6, 1941, holding that customs officers and employees are entitled to recover overtime compensation

for all services performed at night or on Sundays or holidays even though such services are performed on regular tours of duty. The case was remanded to the December calendar for re-argument.

13. Legislation. Mr. Morton of this office prepared a voluntary report to the Committee on Expenditures in the Executive Departments, United States Senate, on S. 1822, a bill "To amend the Act of February 14, 1931, as amended, so as to permit the compensation on a mileage basis, of civilian officers or employees for the use of privately owned airplanes while traveling on official business." The Act of February 14, 1931, authorizes the reimbursement of Government employees on a mileage basis for use of privately owned vehicles when traveling on official business away from their designated posts of duty. This bill would extend the provisions of that Act to Travel by privately owned airplane. Our report suggests that the bill be amended to authorize reimbursement on a mileage basis for travel within as well as without the employee's designated post of duty.

14. Foreign-Trade Zones. The proposed new contract between the City of New York and the New York Foreign-Trade Zone

Operators, Inc., for the operation of the Foreign-Trade Zone at Stapleton, Staten Island, New York, was examined by Mr. Wolf of this office to determine whether it would violate section 17 of the so-called Foreign-Trade Zones Act (U.S.C. title 19, sec. 81q). That section provides that a grant (in this case a grant issued on January 30, 1936, by the Foreign-Trade Zones Board to the City of New York) shall not be "sold, conveyed, transferred, set over, or assigned." A memorandum was prepared in which the conclusion was reached that the proposed contract would not violate section 17. It was pointed out that the new contract, with regard to the portions thereof which are material to the questions raised by section 17, differs in no important respect from the provisions of an old contract which, until recently, was in existence between the same parties. The New York state courts in recent litigation, although declaring the old contract invalid on grounds of state law, stated that it was valid so far as section 17 of the Foreign-Trade Zones Act was concerned. A letter was prepared for the signature of the Secretary of the Treasury, addressed to Mr. Thomas E. Lyons, Executive Secretary of the Foreign-Trade Zones Board, advising him that in the opinion of this office

and of the Secretary the proposed contract would not violate section 17.

15. Foreign-Trade Zone. Mr. Wolf of this office reviewed and revised a letter which had been prepared in the Bureau for transmission to the collector at New York in response to an application by an importer for permission to transfer two lots of imported peas from a bonded warehouse to the Foreign-Trade Zone at Stapleton, Staten Island, New York, for splitting. In its revised form, the letter informs the collector that section 3 of the so-called Foreign-Trade Zones Act (U.S.C. title 19, sec. 81c) does not permit the transfer from a bonded warehouse to a foreign-trade zone of imported merchandise upon which the duty has not been paid. It was reasoned in the letter that such merchandise is neither "foreign" nor "domestic" merchandise within the meaning of those terms as interpreted by the Bureau and as defined in article 948(b) of the Customs Regulations of 1937.

16. Customs Class Six Bonded Manufacturing Warehouse. An opinion was prepared by Mr. Wolf of this office, addressed to the Commissioner of Customs, in which the conclusion was reached that imported articles, taken into a bonded manufacturing warehouse pursuant to section 311 of the Tariff Act of

1930, as amended (U.S.C. title 19, sec. 1811 and Sup. V, title 19, sec. 1311), are subject to duty if they, or articles manufactured therefrom, are not handled in accordance with the applicable customs regulations.

17. Consular Invoice Covering Gold Shipment. At Mr. W. R. Johnson's suggestion, this office reconsidered the questions arising out of the failure of the Federal Reserve Bank at San Francisco to furnish a consular invoice covering certain gold imported on a British warship at San Francisco for the account of the Bank of England. A letter was prepared by Mr. Wolf of this office for the signature of Mr. Cairns, in response to a letter from the General Counsel of the Federal Reserve Bank of New York to Mr. Cairns, informing the Bank that this Department was authorizing the collector of customs at San Francisco to close the case. It was further stated in the letter that the collector would, of course, have to handle future cases in accordance with existing law and regulations. As originally drafted, the letter would have required the Bank to submit a stipulation agreeing to furnish a proper invoice or, in default thereof, to pay $100 as liquidated damages.

18. Authority of Treasury Department to Investigate Export Control Violations. An opinion addressed to Assistant Secretary

Gaston, which was written by Mr. Collins, and signed by Mr. Foley on October 15, 1941, concludes that, although the jurisdiction of the Bureau of Customs and collectors of customs of violations of export control proclamations and regulations is probably not exclusive, the Bureau and the collectors have unquestioned authority to investigate such violations.

19. Uniform Penalties of Bonds for Collectors and Deputy Collectors of Customs. An opinion addressed to the Administrative Assistant to the Secretary, which was written by Mr. Armand DuBois, and signed by Mr. Foley on October 24, 1941, concludes that the President must approve the penalty of bonds for collectors of customs, but that it is sufficient the President approves the basic method of calculating the penalties, without passing upon each individual case. The Secretary of the Treasury may fix the amount of penalties of bonds of deputy collectors. It is suggested that provision be made for periodic revision of the bond amounts.

20. Withdrawal of Unexpended Balance of an Appropriation Covered into the Surplus Fund of the Treasury. An opinion

addressed to the Commissioner of Accounts, which was written by Mr. Collins, and signed by Mr. Foley on October 31, 1941, concludes that the balance of the appropriation to the National Capital Park and Planning Commission for the fiscal year 1939 was unexpended on June 30, 1941, and was properly transferred to the surplus fund in the Treasury. In such case, the balance cannot be withdrawn without a re-appropriation by the Congress.

The following omission is supplied for the report for the month of September: The following special studies assigned to the Opinions Section were completed in September:

21. Payments Under the Transportation Act of 1920, As Amended. Investigation of problems which may be expected to arise in connection with payments to be made by the Secretary of the Treasury to certain short line carriers under section 204 of the Transportation Act of 1920, as amended by the Act of January 7, 1941 (Public No. 893, 76th Congress). The study was completed September 19, 1941, by the formulation of specific questions to be formally presented by the Commissioner of Accounts to the General Counsel for opinion. Those questions have been submitted and are now under consideration.

22. Port of New York Authority. Preparation of material for the brief in the Port of New York authority case. The material, prepared and submitted to Mr. Kades on September 2, 1941, concerned the constitutional power, both before and after the Sixteenth Amendment, to impose a Federal income tax on interest derived from state bonds.

23. Allocation of Seamen's Wages for the Purchase of Defense Savings Bonds. An opinion addressed to Mr. Houghteling, Assistant to the Secretary, which was written by Mr. DuBois and Mr. Gilmore, and signed by Mr. Foley on November 19, 1941, concludes that merchant seamen engaged in foreign trade may not stipulate that wages due them shall be used for the purchase of Defense Savings Bonds (U.S.C. title 46, sec. 599). Wages deposited by the employer in a savings bank or with the Postal Savings System may lawfully be applied to the purchase of savings bonds at the request of the depositing seamen provided the regulations of the depository permit such use of deposits.

The following work was done under the supervision of Assistant General Counsel Bernard:

24. Law Committee of Defense Communications Board (for description see November report, Item 23). Chairman Fly of

the Defense Communications Board submitted to the Secretary for comment a draft of a bill to amend section 606 of the Federal Communications Act of 1934, which the Board wishes to recommend to Congress. The bill widely extends the President's powers over radio and wire communication stations and facilities in time of war, imminence of war, or national emergency. Mr. Spingarn (who is the Treasury representative on the Law Committee of the Board, which Committee prepared the bill) prepared a draft of a reply for the Secretary's signature. This reply, which was signed on October 10, 1941, indicates that the Treasury approves the bill with one suggested amendment to make the President's authority to delegate under the bill more flexible.

25. Proposed Legislation to Regulate Production of Opium Poppies. (for description see May report, Item 9). A redraft of the opium poppy bill has been prepared by the Legislative Section and submitted to Commissioner Anslinger for his comments and approval, to carry out the two general changes agreed upon at the conference in Mr. Gaston's office on September 11, 1941, i. e., (1) to give the Government authority to acquire poppy seed to produce the opium poppy, to manufacture opium or opium products, and to use, sell,

give away, or make any other proper distribution of opium poppy seeds, opium poppies, opium, or opium products; and (2) to limit the bill to only one poppy license for medical and scientific purposes.

26. Board of Legal Examiners. (for description see August report, Item 7). Mr. Bernard, as the representative for Mr. Foley, attended a meeting of the Board of Legal Examiners, held on Saturday, October 25, in the office of the Solicitor General.

27. Un-American Activities Committee. (for description see August report, Item 8). Mr. Spingarn, as a member of the Treasury Committee considering charges of Un-American activities on the part of Treasury employees, continued the study of the background and legislative history of acts prohibiting salary payments to employees advocating or belonging to organizations advocating the overthrow of the Government, with the purpose of preparing a memorandum thereon to assist in the formulation of standards for action by the Department Committee. Mr. Spingarn handled a number of matters relating to the work of this Committee, including the preparation of a memorandum to Mr. Thompson concerning the status of a Treasury employee who is a Government witness in the criminal prosecution of George Sylvester Viereck.

28. Equalizing Privileges of Government Obligations. (for description see September report, Item 8). The Legislative Section participated in the preparation of a proposed draft of a bill to equalize direct and indirect obligations of the United States in respect to certain privileges, and prepared an explanatory memorandum on the language of the bill which indicates particular statutory situations, which, it is felt, the language chosen will cover.

29. Economy Committee Material. At the request of the Secretary, a study was commenced of measures pending in Congress where non-defense economies might be effected. Future bills will be checked and reports made from time to time to assist the Secretary in his work as a member of the Joint Senate and House Committee on Economy, established by the 1941 Revenue Act.

30. State Cooperation with Federal Agencies in Defense Efforts. This office prepared a proposed Treasury Circular, requesting from each part of the Department presentation of an analysis of possible situations in which there could be value in cooperation from State legislative and administrative organizations in defense efforts. Material received in response to

this request will be summarized and transmitted to the Attorney General so that organizations of State groups will be able effectively to bring about cooperation.

The following work was done under the supervision of Assistant General Counsel Bernstein:

31. Foreign Funds Control.

a. China Program: Work was completed upon a program designed to strengthen the position of the National Government of China with respect to foreign trade and foreign exchange. Measures adopted will in general permit remittances to China and trade between the United States and China, provided that dollars accruing to China as a consequence of such transactions are made available to the Stabilization Board of China, and provided that the Stabilization Board of China must approve dollar payments for goods imported into China from the United States. In order to carry out the Chinese program, General License No. 75 was issued; General License Nos. 58, 59, and 61 were amended; General License No. 64 was revoked; and collectors of customs and American Consular Officers in China were given instructions relative to the mechanisms by which

General License No. 58, as amended, will be enforced. Messrs. Bernstein, Luxford, Aarons and Rains worked on this.

Another facet in our cooperation with China has been the joint effort by State, Economic Defense and Treasury to coordinate export control, priorities and freezing control to both simplify the problem from the point of view of the Chinese Government and also to make the Chinese Government's control more effective. Several conferences have been held and certain progress is being made. Messrs. Bernstein and Luxford handled this.

b. Remittances: By amending General License No. 32 relating to remittances to blocked countries, and by press release, this Department restricted remittances to blocked areas against free dollars being made available to the Axis. General License Nos. 33 and 72 were also amended but their terms are not as severe as those of General License No. 32. Messrs. Bernstein, Luxford and Golding worked on this matter.

c. Commodity Futures: General License No. 9 was amended so that it no longer allows any blocked national to

deal in any transactions in commodity futures other than liquidating transactions. Specific licenses issued to companies merchandising commodities were examined and representatives of the five most important companies called to Washington to discuss in detail their spot and futures operations. Hereafter blocked nationals will not be allowed to engage in purely speculative transactions in commodity futures. Messrs. Bernstein and Sherbondy worked on this.

d. Food Packages: It was agreed after considerable investigation that the business of transmitting food packages to Europe should be prohibited. Messrs. Bernstein and Sherbondy handled this matter.

e. Freezing Control and Proclaimed List in American Republics: This Department studied the advisability and feasibility of urging the adoption of freezing control programs in the various Latin-American countries and of further measures prohibiting, with certain exceptions, dealings of blocked nationals with United States concerns within the Latin-American Republics. It also considered the possibility of

advising American consular officers of pending exportations to Latin-America so that such officers might be in a position to forestall "cloaking" transactions. Messrs. DuBois, Mann, and Rains worked on this matter.

On November 7, 1941 Supplement No. 3 of the Proclaimed List was issued constituting a number of additions, deletions and amendments to the outstanding Proclaimed List. Messrs. DuBois and Mann handled this.

During the month of November Supplement No. 4 was prepared for publication early in December.

f. Reporting of Foreign-Owned Property: A final version of questions and answers relating to problems of insurance companies was prepared and published in cooperation with representatives of the various insurance trade associations, and a similar pamphlet concerned with the problems of importers and exporters were prepared. Insurance companies and importers and exporters were allowed a further extension of time until November 29, 1941, to file reports on Form TFR-300. Informal addresses on reporting requirements were made before the Controllers Institute of America, and the New York Patent Law Association. Messrs. Reeves, Arnold, and Murphy worked on this matter.

g. Exportations and Importations by Mail: In connection with the Japanese boats calling at the United States in order to pick up Japanese citizens, the problem arose as to the procedure which should be employed in preventing the mail being used to permit the exportation to Japan of securities, currency and other products valuable to the Japanese economy. This is particularly true in case of parcel post packages. The problem of first-class mail was dealt with largely through routing through Vancouver. In cooperation with the Customs Bureau all parcel post packages were examined. Due to the haste in departure of the Japanese boats, most of the parcel post did not make the boats.

A tentative program was prepared aimed at the prevention of unlicensed exportation by mail of securities and other merchandise in situations where licenses for such exportations are required, and consideration was given to the question of tightening the control on importations by mail from blocked nationals and nations. Messrs. Bernstein, Luxford, and Rains handled this.

h. Patents: The advisability of requiring the compulsory licensing of patents under certain circumstances was

considered with representatives of the Patent Office. Discussions were initiated with representatives of the New York Patent Law Association preliminary to the preparation of questions and answers relating to the impact of the Executive Order upon patent practice. Messrs. Kehl and Murphy worked on this matter.

i. Business Enterprises: The application by General Dyestuff Corporation to purchase the controlling shares of General Aniline and Film Corporation was again denied, and thorough study of the entire General Aniline and Film Corporation situation continued. Negotiations were conducted with representatives of the Canadian Government and the Government of Great Britain in reference to the Bata Shoe Company. The problems of dealing effectively with a number of other enterprises were given intensive study. In particular, such study related to the need for a closer control over Axis firms, including the need for placing men in such firms and the relation such action would have to any alien property custodian. Messrs. Aarons, Sherbondy, Lawler, Kehl, and Linville worked on this.

j. Insurance Companies: Further consideration was given

to the difficulties of domestic insurance companies in complying satisfactorily with the Order, (Messrs. Murphy and Golding), and in collaboration with the British Government and the Department of State, to the adoption of a Latin-American program implementing properly the Proclaimed List. Mr. Kehl handled this.

k. Panama Paper Currency: In cooperation with the Division of Monetary Research, this office considered the policy to be suggested to the Department of State in connection with the payment and disbursement by Canal Zone Authorities of paper money issued by the Republic of Panama. Messrs. Bernstein and Golding worked on this matter.

l. Publicity and Educational Program: A very satisfactory response was received to a letter sent by the Secretary to the president of each bank in the United States. Some 2000 replies were received which were, by and large, very sympathetic to our objectives and offered several constructive criticisms. A preliminary analysis has been made of all the replies and a further analysis is being made so that every point raised in such letters will be carefully considered. Conferences were held

with representatives of the American Bankers Association outlining a plan involving a program of educating banks on the blocking of accounts, the significance of the freezing orders and magazine articles. Also under consideration is a movie short which can be used to educate the public in general and banks in particular regarding the significance of freezing control. Numerous conferences have been held with outsiders regarding their problems in connection with the general problem of administering foreign funds control. In particular, several men have called to discuss the matter, not in the light of individual cases, but in its over-all ramifications. These conferences have been extremely helpful. Messrs. Bernstein, Luxford, and Naiden handled this.

m. Postal Savings Accounts: We were also working on detailed instructions for the use of the Post Office Department in handling postal savings accounts. The problem in connection with such instructions was one of obtaining effective control with a minimum of disruption to Post Office procedure. Misses Hodel and Goode worked on this matter.

n. Refugee Problem: The study of what should be the attitude of freezing control regarding refugees in the United States was still under way. Further studies of the over-all problem are being continued. Messrs. Bernstein and Luxford handled this.

o. Litigation and Legislation: In connection with a decision in the Appellate Division in the New York Supreme Court in the Polish Relief Commission case this office has been studying seriously whether the government should participate in an appeal from such decision due to its implications in connection with freezing control. Also under consideration is the possibility of going to Congress for further legislation in lieu of participating in court proceedings. Messrs. Bernstein, Luxford, Reeves, and Golding worked on this matter.

p. Compilation of Legal Rulings: This office started a study of all legal rulings which have been issued under the freezing control orders and regulations with a view to the preparation of a compilation of such rulings for distribution to the staff and the Federal Reserve banks. Misses Hodel and Klein handled this.

32. Censorship. This office studied the new censorship bill proposed by the Cabinet Subcommittee and the memorandum prepared for the Secretary in connection therewith. Messrs. Bernstein and Luxford worked on this.

33. Silver Legislation. This office has been studying and drafting legislation which would permit the sale of silver acquired under the Silver Purchase Act to meet the present unusual demands for silver in defense work. Miss Hodel and Mr. Brenner handled this matter.

34. German Claims. This office cooperated with the Bureau of Accounts in connection with the distribution that was then being made on account of the awards of over $100,000 of the Mixed Claims Commission, United States and Germany. Miss Hodel and Mr. Brenner worked on this.

35. Silver Contracts. We worked on the problem of cancellation of outstanding silver contracts made desirable by the virtue of the shortage of silver in the American industrial market. We prepared an opinion as to the legal authority and participated in drafting the letters cancelling the contracts. Mr. Bernstein, Miss Hodel, and Mr. Brenner handled this.

36. Iceland Stabilization. We drafted a set of documents covering the proposed $2 million stabilization arrangement

with Iceland. Documents were submitted to the Icelandic authorities. Mr. Bernstein handled this matter.

37. Mexican Stabilization and Silver Arrangements. We prepared all the documents in connection with these arrangements and discussed them with other people in the Department, the Federal Reserve Bank of New York, and with the Mexicans. Mr. Bernstein worked on this.

38. International Telephone and Telegraph Case. This office worked on the proposal of Colonel Behn to sell the Spanish telephone properties of that company to British interests, involving a commitment by the British to pay out $64 million U.S. dollars after the war. We also discussed this matter with others in this Department and with the State Department. The proposal was disapproved. Mr. Bernstein handled this.

39. Cuban Trade Agreement. We participated in Departmental discussion on the foreign exchange and other provisions to be included in the new Cuban trade agreement. Mr. Bernstein worked on this matter.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Developments in the High-grade Security Markets; The New Treasury Bond; Open Market Operations in the Medium Maturity Sector

SUMMARY

(1) Prices of Treasury notes have held about unchanged during the past five weeks, and are about 1/3 of a point above their prices at the opening of the year. Intermediate and long-term Treasury bonds, on the other hand, have weakened, and are almost 3/4 of a point below their levels of December 31, 1941 (Chart I).

(2) The yield structure in the medium maturities of taxable Treasury bonds shows that open-market support of only two issues instead of all the issues in this maturity sector has tended to make the 2 percent bonds due 1951-55 more out of line than ever. The inconsistency in this sector could be cured by extending market support to other issues (Chart II).

(3) The difference between yields of taxable and partially tax-exempt Treasury bonds, indicating the value of the partial tax-exemption privilege, has declined during most of the past year (Chart III).

(4) During January the spread between municipal and high-grade corporate bond yields declined by only four basis points, indicating only a small effect on the market for State and municipal securities of your speech in Cleveland the last week in January, in which taxation of outstanding as well as future issues of municipal bonds was recommended (Chart IV).

I. The Government Security Market

Prices of intermediate and long-term Treasury bonds have declined almost a full point during the past five weeks, while prices of Treasury notes have experienced only very slight declines. During the first three weeks of 1942, prices of all classes of Treasury securities had advanced moderately (Chart I).

Price movements of Treasury securities by maturity classes for the first three weeks of January, for the subsequent five weeks, and for the entire period are presented in the following table:

	Average price change		
	Dec. 31 - Jan. 22	Jan. 22 - Feb. 26	Dec. 31 - Feb. 26
	(In thirty-seconds)		
Notes			
1 to 3 years	+12	- 3	+ 9
3 to 5 years	+12	- 2	+10
Bonds			
5 to 15 years to call	+ 3	-27	-24
15 years and over to call	+ 9	-30	-21

II. The New Issue; Open Market Operations in the Medium Maturity Sector

The new issue of 2-1/4 percent Treasury bonds, due 1952-55, opened Saturday, February 14, the day after the subscription books were closed, at 100-16/32 bid. It rose to 100-22/32 during the two hours the market was open. It then gradually declined to a price of 100-16/32 at a week ago Thursday night's close, despite the support rendered by purchases by the

Federal Reserve System Open Market Account and the Treasury of $3,300,000 of the new issue on Monday, $4,195,000 on Tuesday, $9,442,000 on Wednesday, and $3,091,000 on Thursday of last week. No Federal Reserve System nor Treasury purchases of the new issue have been made since that time. Subsequently, the new issue of 2-1/4 percent bonds has gradually advanced to 100-21/32 at last night's close.

The only other open market purchases were of the 2 percent bonds of 1951-55, although other issues in this maturity sector showed weaknesses. Chart II presents yields to first call dates of taxable Treasury bonds. A curve has been drawn on the chart to show the structure of the market. The deviations of the yields of individual issues from the curve give an indication of how far out of line certain issues are. For example, the 2 percent bonds due 1951-55, yielding 2 percent, selling at exactly par, are not in line with the market structure; they are selling at a considerably lower yield than similar bonds, such as the new 2-1/4 percent bonds due 1952-55 yielding 2.18 percent and the 2-1/2 percent bonds due 1952-54 yielding 2.15 percent, both of which lie in the same maturity sector of the market. In other words, the 2 percent bonds due 1951-55 are selling too low in yield (too high in price) for the maturity sector of the market in which they fall. This anomalous situation has been brought about by the concentration of Federal Reserve support on only two issues. It could be eliminated by a vigorous support of the entire sector of the market, thus bringing the remainder of the sector up to the issue now out of line.

III. Changing Value of Partial Tax-exemption Privilege

The spread in yields between taxable and partially tax-exempt Treasury bonds of comparable maturities, coupons, and call periods, which is presumptively attributable to the value of the tax-exemption privilege, has shown considerable movement during most of the past year, and has decreased on balance.

Chart III compares average yields on long-term partially tax-exempt bonds and long-term taxable bonds. From May through the first three weeks in October 1941, the taxable

series is represented by the 2-1/2 percent bonds of 1956-58. Subsequent to the break in the curve the taxable average is represented by the average of the 2-1/2 percent bonds of 1956-58 and the 2-1/2 percent bonds of 1967-72.

As may be seen on the chart, the spread decreased sharply from May until August. Thereafter, it rose slowly until December; since then it has fluctuated sharply but declined on balance to the present time. The present spread between partially tax-exempt and taxable Treasury bonds is near the lowest since the beginning of the two-bond taxable average in October.

The daily grid of Chart III shows very clearly that the decline in spread between taxable and partially tax-exempt Treasury bonds since the beginning of the year is due to the fact that tax-exempt bonds increased in yield (fell in price) at the same time that taxable bonds held relatively steady. In interpreting these figures, it is necessary to bear in mind that during the past several months the tax-exempt market has been a free one, while the taxable market has been partially supported.

Additional information on changes in the value of the partial tax-exemption privilege since last spring is brought out by the following table, which compares the spread in yield between the taxable 2's of March 15, 1948-50 and the partially tax-exempt 2's of December 15, 1948-50 at various dates, commencing with April 15, 1941.

Date	2%, 2/15/48-50 (taxable)	2%, 12/15/48-50 (partially tax-exempt)	Yield spread
	(Percent)		
1941:			
April 15	1.78	1.35	.43
Aug. 15	1.44	1.09	.35
Dec. 15	1.66	1.28	.38
1942:			
Feb. 26	1.75	1.39	.36

IV. Other Domestic High-grade Securities

Municipal bonds were down but little as the result of your declaration before the Forum of the City Club of Cleveland stating ". . . it is high time . . . to tax the income of State and municipal securities . . ." The Bond Buyer monthly average yield of high-grade municipal bonds in eleven cities rose (prices declined) 13 basis points to 2.04 percent at the beginning of February (Chart IV).

During this same period, the Treasury average yield of five high-grade corporate bonds increased by nine basis points to 2.80 percent although the yield of corporates is not, of course, affected by the proposal to eliminate the tax-exemption privilege. Therefore the spread between corporate and municipal securities declined by only four basis points during January. It will be noted from the chart that municipal bond yields rose much more -- both absolutely and relative to the increased yield on corporates — in December than they did in January. Municipal bond yields have continued to rise (prices fall) thus far in February.

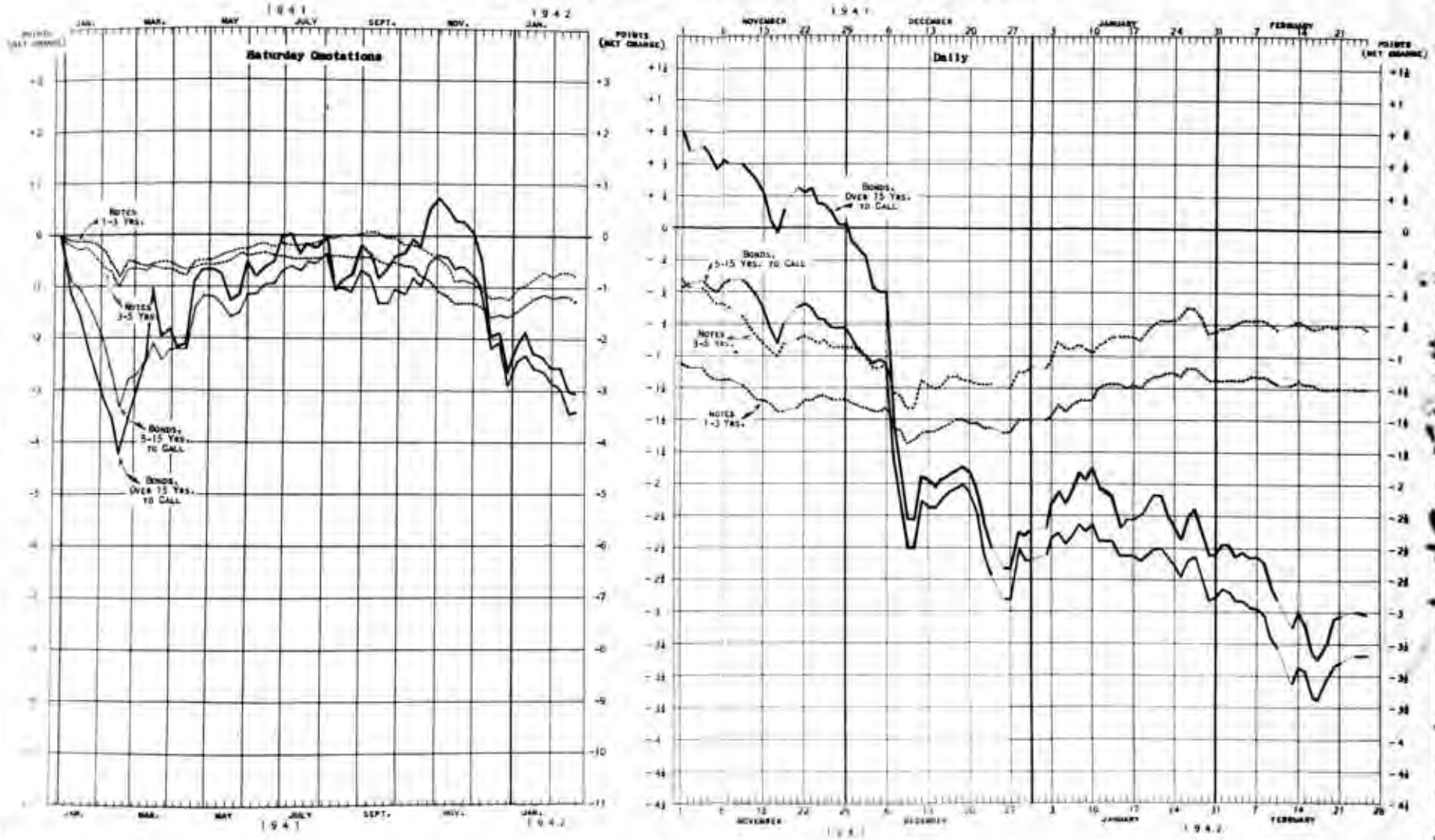
The volume of new bonds publicly offered in the New York market for the four weeks ending February 20 totalled only $38 millions, a very sharp decline from the more than $150 millions offered in the one week ending January 23.

Attachments.

 Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from December 28, 1940 Price of Each Maturity Class



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YIELDS OF TAXABLE TREASURY BONDS, FEB. 26, 1942

Based on Closing Bid Quotations

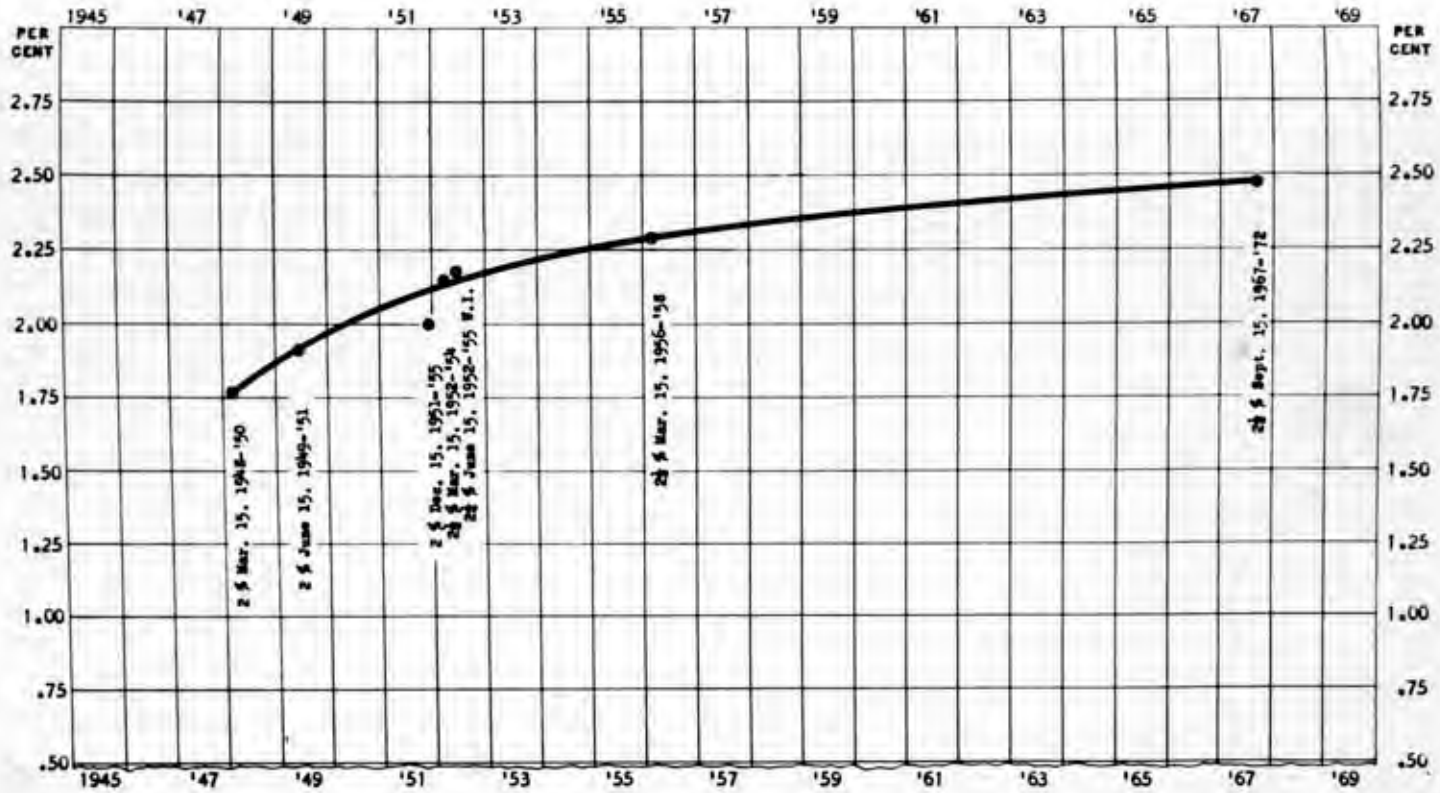

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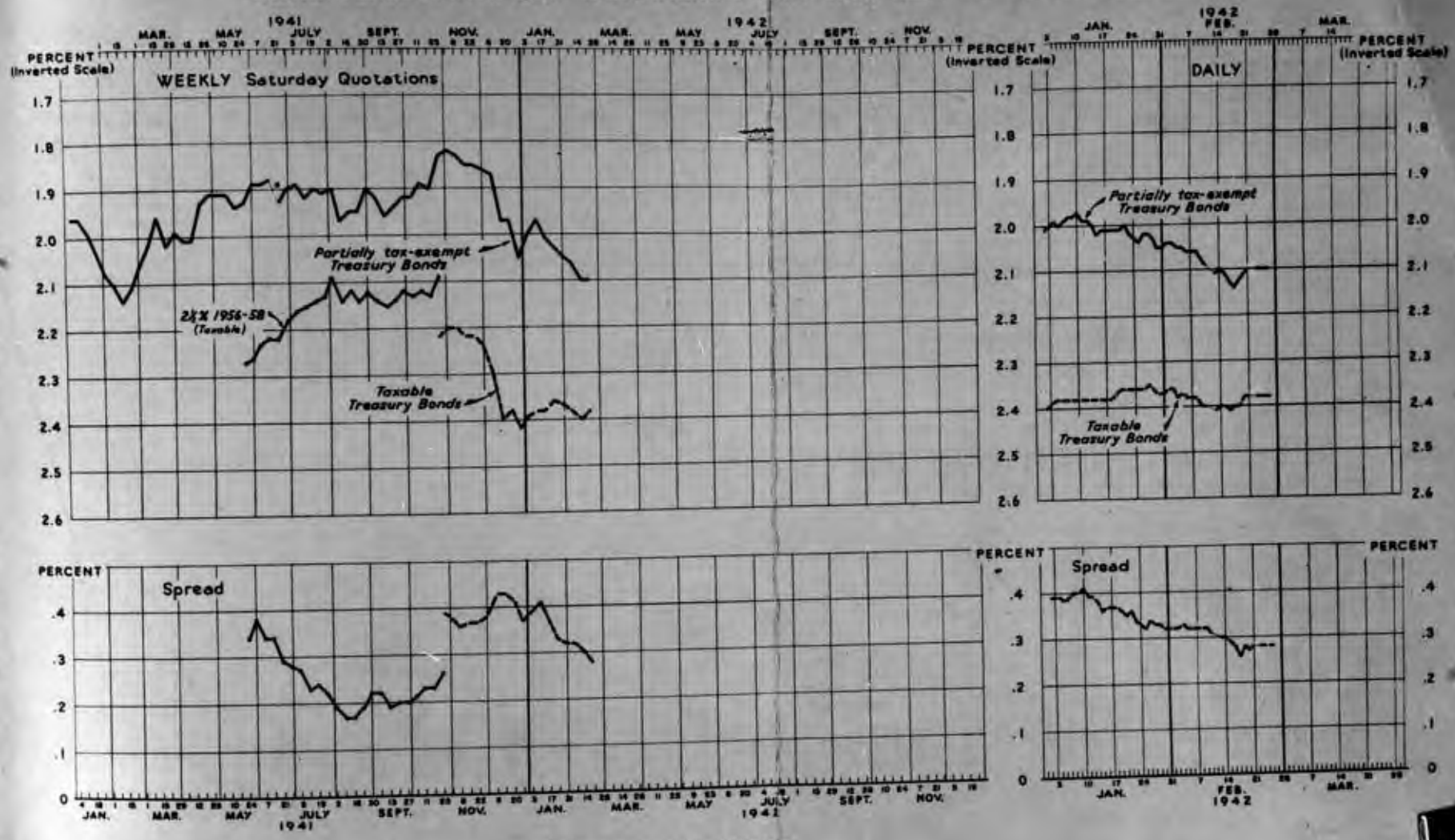
Chart III

COMPARISON OF MARKET MOVEMENTS OF LONG-TERM PARTIALLY TAX-EXEMPT AND TAXABLE TREASURY BONDS



*Change in composition of average

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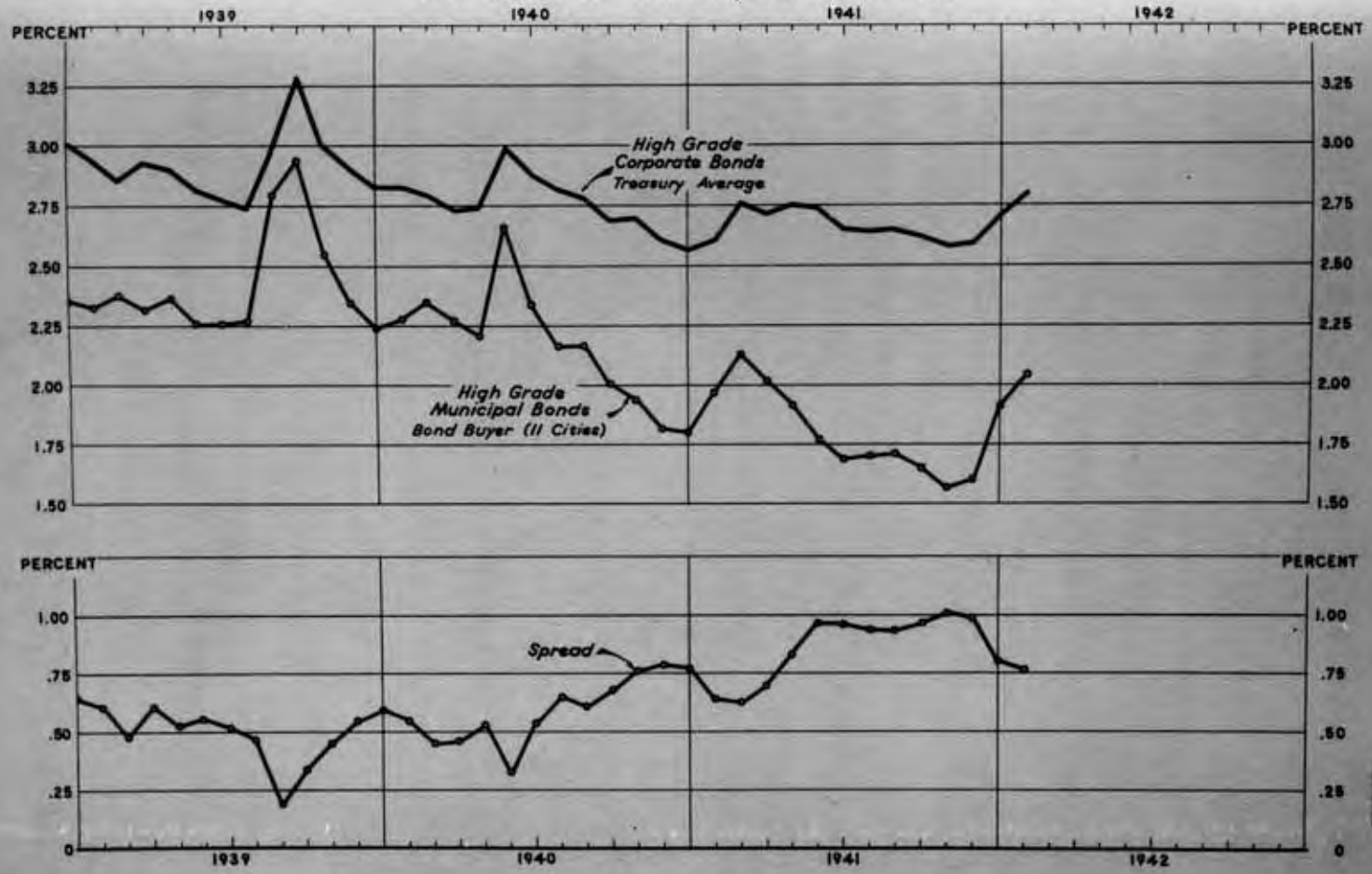
COMPARISON OF THE YIELDS OF HIGH-GRADE CORPORATE AND MUNICIPAL BONDS

First Day of the Month Figures, 1939 to Date



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

MEMORANDUM FOR THE SECRETARY.

February 27, 1942.

Mail Report

Comment mail continues very heavy, with letters on economy leading all the rest. It is interesting to note that in spite of the resignations, etc., in OCD, the spirit of distrust and criticism continues to exist. The letters have actually increased in volume, and are almost exactly the same in wording as those of last week.

Naturally, this reflects upon Defense Bond mail, as many of the letters tie up the two subjects. Aside from these, the greatest volume is found in the suggestions for the change of name. About 99% favor the term, "Offense Bond". There are fewer criticisms of delay in securing the Bonds or of paid personnel.

Of course, taxes are very much in the public mind. There has seemed to be a slight swinging back toward the 15% deduction, and also there are a number of comments on the speech of some time ago, in which an allusion was made to a 6% profit limitation. Recent speeches have been mentioned, but usually as a springboard for expression of the writers' views on taxation, economy, etc.

G. E. Hoshour

Favorable Comments on Speeches

Blum J. Rosenbaum, Cleveland, Ohio. Your speech at Baltimore was, I think, in its reasoned and circumspect tone the best I have heard on the subject of war finances. I liked particularly the figure of speech you used in connection with the necessity for putting into the background the demands of normal business. * * *

Mrs. H. L. Carmichael, San Francisco, Calif. Your wonderful radio appeal to all the people in the U. S. should wake them up to the absolute necessity of buying U. S. Bonds and Stamps. The very best part of your talk was that the U. S. is not asking you to give, we only ask you to loan it to your Government, with a better interest than you can get in any bank. * * * I try to convince every one that it is impossible to win a war without money. I feel it is a privilege to be able to help the most wonderful country in the world. * * *

N. H. Liberal, Franklin, N. H. I was well pleased by your broadcast the other night - it was a wonderful speech urging the people to Buy Defense Bonds.

Sarah Kapp, Jersey City, N. J. Your talk over the radio last Saturday evening to the Advertising Club of Baltimore was most convincing as to the urgent need of everybody throughout the country to buy Defense Bonds. If the public has not been awakened yet to the necessity of purchasing Defense Bonds, your speech, I feel, has aroused the public to the importance of it. I for one have been and intend to do my share as far as purchasing these Bonds; in addition will read the text of your address to every organization or group that I am affiliated with, as I feel it has a very definite, direct and urgent message.

Samuel Laderman, Chairman, National Defense Committee, Chicago Federation of Labor. I arranged a party in my home last night in order to listen in collectively to the addresses made by William Green and yourself, at the opening of the one billion dollar drive for Defense Bonds by the American Federation of Labor. We were all deeply

impressed by the address delivered both by President Green and yourself. We recognize more than ever the stake we have in the winning of this, the greatest struggle our country was ever involved in. We know that it is a life and death struggle for our democracy and for our trade union movement.

Mrs. Carrie S. Miller, Seaside, Oregon. I want to thank you for your Sat. evening talk. We should have more such and transcribed for each network, and staggered in time, so every one could at least have a chance to hear. * * * I hope you will see that more is done to awaken us. Spread such good stuff all over the radios!

A. P. Haake, Managing Director, National Association of Furniture Manufacturers, Chicago, Ill. Permit me to commend you for your excellent speech to the Advertising Club of Baltimore on February 14th. I am taking the liberty of sending it to members of this Association with the request that they push your project. I am particularly impressed with your paragraph beginning, "The battlefields of this war are not thousands of miles away". * * * Cannot something be done from Washington to arouse in all workers the realization that limitation of output per man per hour is equivalent to sabotaging the unproduced units? Here is one example perhaps worth investigating: a brick building erected by the Government for the manufacture of ammunition for small arms in the city of St. Louis. It is alleged that the bricklayers on this job laid from 400 to 500 bricks per man per day, while on a nearby private project, they laid from 1,400 to 1,500 per man per day. Thus, it cost the Government about $41.00 per thousand to lay those bricks, three times as much as on the private project, and took three times as long to do the job. One wonders how much this sort of thing would appeal to General MacArthur and the $21.00 a month boys who are fighting with their backs to the sea.

Unfavorable Comments on Speeches

Cora Elder, Cupertino, Calif. I just listened to your speech, and while I was listening I was reading a letter from Los Angeles from a friend who was told by one of the workers that he was never paid so much for so little work. Also, that the foreman often came to the men and told them not to work so hard. This was in the Douglas Aircraft Company. This sort of report doesn't help sell Bonds. * * * Little people who are earning small salaries do not like to be taxed to support a Government that even in war time votes silly pensions and appointments. * * * This is not a criticism of you, nor of Mrs. Roosevelt, but it seems to me that money is being spent in a lavish, wasteful way by people who do not realize that there are 100 cents in a dollar, and it is very hard for most people to acquire a dollar. Probably you will never see this letter, but I hope that the sense of it may reach you.

Mrs. Beatrice Hammond, Spokane, Wash. I gathered from your radio talk of last Sat. evening that you are not satisfied as to the way Defense Bonds are selling. Is there any way in which you could convince the average American housewife that as much thrift is being practiced in the various Governmental Departments in Washington as she has to practice in her home in order to buy the Bonds? If you could do this, I sincerely believe, from the remarks I hear all around me, that the response would be all that you could desire.

C. H. Brisbin, Ensley, Ala. I have just listened to your appeal to the American people to buy Defense Bonds. In your talk you asked - "What are we waiting for?" I happen to know that many people are waiting to get some assurance that the money will be used wisely. They are not very much interested in pensions for Congressmen, or the hiring of fan dancers and futuristic painters. Note the enclosed clipping. (Tells of falling off of Defense Stamp sales because of OCD trouble.) Personally, I have $1,010 on deposit with the U. S. Govt., and will soon have more. This isn't bad for a man with an income of $40.00 per week. But I shall do all that I can to see that none of the money is wasted. Please pass this word along to members of Congress and Administrators of OCD funds. WE ARE DIGGING DEEP TO PROSECUTE THE WAR, AND NOT FOR ANY OTHER PURPOSE.

Favorable Comments on Bonds

Robert H. Garrett, Turlock, Calif. It is my pleasure to inform you that the Chamber of Commerce of Turlock, Calif., will, for the "duration", award a $25 Defense Bond to the first baby born every month in this community as an expression of confidence in the lasting future of the United States. Members of this organization contribute voluntarily to a "Baby Bond for Baby Fund".

Bessie Dawe, Boston, Mass. I am an English girl who has been in this country for 5 years and have taken out my first citizenship papers. Realizing that America is a great country, I would like to do my little part and buy Defense Bonds. I took some money that I had in the bank and tried to purchase these Bonds, but was refused as I was not a full citizen. As I will be a full-fledged citizen by the maturity date of these bonds, I am wondering if this condition can be waived in my behalf.

Earl N. Pettit, Salt Lake City, Utah. * * * In my opportunity to come in close contact with bankers throughout the Intermountain area and on the Pacific Coast, it has been my privilege to impress upon them how very important it is to the economic welfare of the country that the widest possible distribution of the defense cost be made, and how necessary it is from the standpoint of the stability of their own local communities that a goodly portion of the excess income now coming into the district be currently diverted from channels (including bank deposits) contributing to inflation to the sound and constructive program of deferring purchasing power to a time when it will undoubtedly be sorely needed. I believe that in this I have met with some success in furthering the defense program. * * *

Pat Parley, Los Angeles, Calif. I am a girl of 13, and I think, on behalf of the other children of Los Angeles, it would be very much better if you could somehow arrange to make 5¢ Defense Stamps. I think that the children would buy more stamps than we have been doing, because I, myself, get 5¢ for ice cream or candy. I think that there would be many, many more Defense Stamps sold.

Roger Bogenberger, Milwaukee, Wis. I am a boy of 12 years. I am about four feet tall and weigh sixty pounds. My boy friend and I want some way to make money. Last summer we had a circus of two cats, a dog, and three chickens. We would charge one pound of rags or paper. After the circus was over, we would sell the paper and rags. We made a profit of a few cents a circus. Now we decided that money isn't worth much now, because everything is so high priced. My boy friend is going to raise chickens. I decided that my yard is too small to raise anything. So I want to sell Defense Stamps to people. I don't expect anything because money isn't worth anything. Would you please send me an answer to my letter? Your Pal - Roger Bogenberger.

A. E. Postlethwaite, Ravenna, Ohio. Some time ago I heard you on the air and you were talking about workers buying Defense Bonds through deduction from their pay, and also you said to ask your employer to deduct so much a week from your pay, and if he refused, to write to you and you would see that he did. I happen to be an executive of the Union which is Local #201, of the Cleveland Worsted Mills. We had a meeting Feb. 24th with the Superintendent of the Plant, and we asked for a voluntary deduction for those who wished to buy Defense Bonds. He said it was too much of a job, and that they had too many deductions to make now. So if I am correct, this is your chance to put them in line, as they could make Army clothes if they wanted to, but they want only civilian goods, whereby they can make 250%. I think if we are to help win this war, the time to buy Bonds is right now. * * * I will ask a favor of you, and that is, please do not expose me on this for I am doing this on my own, but I would like a reply from you on this matter.

George J. Ormsby, Moscow, Iowa. Now that we have entered into one of the worst crises that the U. S. has ever been in, World War II, the people will be asked to contribute with money and men until victory is assured, which most of them will try to do. A question that is staring me and some of my neighbors in the face is whether a man has to buy the bonds if he has not the money to buy them with. The reason I am asking this is that we had a bad hail storm in this locality last summer that took our crops completely. It covered a territory of about two miles wide and this leaves us in a bad shape financially. I think that if the Processing Tax that the farmers paid on their hogs was paid back to them, that this would be almost all spent for bonds.

Unfavorable Comments on Bonds

B. S. Bailey, Ludington, Mich. In your radio address last evening urging the purchase of Defense Bonds, you asked, "What are you waiting for"? From conversations with dozens of people in, shall I say, the upper middle class, that very many people are waiting for definite and continued evidence that the Administration officials are no longer depending on radio addresses, staggering appropriations and taxes, an appeasement of the Union and Agricultural vote, fan dancers and Hollywood glamour boys to win the war. A few days ago the President urged a more realistic attitude towards the war, but his idea of a realistic attitude is for every one to believe and vote as he does. * * * Washington officials live in an unnatural atmosphere of wealth and power, and do not know, and doubtless do not want to know, how to think in terms of the common people.

Anthony De Mayo, Field Organizer, United Electrical, Radio & Machine Workers of America, Newark, N. J. * * * Our Union is interested in promoting the sale of Defense Bonds. Our efforts to institute a promotional campaign in the Foster-Wheeler plant in Carteret, N. J., met with a flat rejection. Any influence your department can exert would be appreciated.

S. E. Ellis, Longview, Wash. * * * There seems to be a lot of ballyhoo over the radio, through magazines and newspapers these days on the subjects of "Wake Up America", "Behind The Eight Ball", "The Public Is Not Yet Awake", etc. * * * About the only thing that we common people can do is cast our vote occasionally, pay income taxes and buy Defense Bonds, when we can get them; and we are trying as best we know how to do just that. On January 8th, I passed a check to our local bank, the National Bank of Commerce of Seattle, Longview, Wash., for the purchase of several Defense Bonds of the $25.00 face value for employees payroll deduction working under my supervision. I did not get these Bonds until January 20th. The bank advised me that they simply did not have the Bonds on hand, could not get enough to supply the demand, and that my check had been held up until they could get the Bonds. * * * About half of our radio programs and various clubs' activities these days are urging us to buy Bonds, buy Bonds, buy Bonds. Therefore, I would like to ask the question, "How can we buy Bonds when there are none for sale?"

Arthur State Bank, Union, S. C. (Telegram) Did you know there is a war? Its high time you quit talking about Defense Bonds. Call them what they are - Victory Bonds. Cut out this defense foolishness. The best defense is offense, and the offense leads to victory. Your defense name is now very bad psychology. VICTORY BONDS

Charles A. Lachaussee, Jersey City, N. J. In this era of stress why do not the National Banks show more interest in the sale of Defense Bonds? Some of the Mutual Savings Banks in this area have advertised, but I still have to see a notice of the kind from the National Banks. * * * I would also like to call to your attention that the banks are endeavoring to squeeze the last penny out of debtors. Our National Bank holds a mortgage on my home. Amortization payments are made regularly and on time, and the principal sum is now only $5,196. Yet I have been told twice, "The Bank Examiners have criticized your mortgage, and we insist on a payment of $500 on the principal". * * * I do not believe the Bank Examiners made any such statement. * * * The serious feature of my situation is that if I cannot borrow the $500 from some friend, I shall be compelled to redeem $500 worth of my Bonds, for which I scraped and saved to purchase. * * * I have just read a two-page advertisement (New York Times) of New York firms whose employees are buying bonds on the salary payment plan. I fail to find the name of a single National Bank on the list.

J. O. Modisette, Jennings, La. The writer is chairman of the Speakers' Bureau and, as such, has been handed a copy of the Manual for State and Local Committees of the U. S. Defense Savings Staff, issued by your office. He wishes to call your attention to page 6 thereof, where you place Russia in the same class with Germany, Italy, and Japan, in the first line of that page, and then in the fifth line, same page, you refer to the Nazi, Communist, and Fascist Parties. There is no question in my mind but that they all belong to the same class, but the point I am trying to call

to your attention is the wisdom of our putting them in the same class, now that we are at war with Germany, Italy and Japan, and Russia is, to all intents and purposes, an ally of the democracies in the fight upon Germany and Italy. * * * If we place them all in the same category, it might mean another diplomatic snarl or cost this country another billion dollar loan to Russia to make amends for this undiplomatic reference. Why not leave out Russia and the Communists altogether, and simply revise your Manual and cut out any reference to either and then you will not likely offend the Reds.

Peter R. Nelson, Roche Harbor, Wash. We are domestics in a private family. We have bought a few stamps and expect to buy Bonds soon, but we don't feel like doing it as long as there are Jap aliens right under our noses who won't even eat cheese, because they couldn't go back to Japan if they did. We are in the northern most part of the North Pacific - a swell place for invasion. How soon can we buy our Bonds?

Lt. Colonel Tracy Baker, Kansas City, Mo. As an employee of the Post Office Dept, last summer I voluntarily purchased National Defense Bonds each month. Then the Post Master General directed that all employees voluntarily pledge to buy Stamps or Bonds each month, and a record would be kept in the office of our immediate superior officer, who, in turn, would report once each month to a higher official as to how many employees had pledged, and the total amount purchased. At the present time, our immediate officials state we HAVE to pledge so much each month or else be reported to higher officials. Myself and many others deem this method of having to report to our officials the amount purchased each month as unconstitutional and too much on the order of HITLERISM, a thing we are at war now to combat. As to whether this method is legal or not is a question uppermost in the minds of many of us, and a decision from your office on this question by return mail would be deeply appreciated.

General Comments on Present Emergency

P. J. Wood, Independent Theatre Owners of Ohio, Columbus, Ohio. This letter is the result of one remark made by you in your talk last Saturday evening before the Advertising Club of Baltimore -- your statement that the purchase of Defense Bonds and Stamps was simply in the nature of a loan to the Government. This important selling point has, in my opinion, been very much overlooked in selling these securities. We hear a lot about the complacency and apathy of the average citizen towards the conduct of the war, and that it does exist, we must admit - especially in that vast territory East of the Rockies and West of the Alleghenies. * * * Trying to drive home the matter of having people invest in Government securities through the medium of vaudeville acts, glamour girls and the like (see attached clipping) does not impart to the American people the real seriousness of the job of raising stupendous sums of money, and the sooner the Treasury Department "deglamourizes" their money-raising campaign, the quicker you will impress upon people the fact that, in order to build up the greatest Navy, the largest Air Fleet and a large Army, it requires their serious and continuous financial cooperation. * * * We're not going to win this war by publicizing fan dancing, deep breathing, sarongs, sweaters, heaving bosoms and shapely legs. Those $21 a month Americans at the front want to be backed up with guns, submarines and airplanes, and these can only be obtained by convincing those who remain at home that they must lend their money to the utmost to their Government. They must be told about it in a serious manner and not in circus or "Donald Duck" style.

George W. Briggs, Drew University, Madison, N.J. Why is not "carelessness" sabotage? (Pearl Harbor...New York) Why are not the careless in Hawaii and New York held to account now? Loss and more loss; flagrant Government waste (we all know about it); but every radio broadcast calls for citizens to SAVE, SAVE, SAVE. * * * What we do object to is billions of appropriations and no reinforcements reaching MacArthur. According to the Magazine Section of last Sunday's

New York Times, "the bombers are flowing day and night". Where? The same New York Times prints "Proposed Savings by Wage Waivers". Which is to be safe-guarded first - tax payments or the purchase of bonds? And do I sacrifice my fourth and youngest child's fourth year of college while OCD finances dancers and play boys?

Johanna Watkins, Dallas, Texas. To get right to the point, why not use all the money that is lying idle in our banks for defense -- unclaimed money that has been there for years -- exchange it for Defense Bonds. Don't say it can't be done - it can. Its not any different than taking our nation's men and boys and sending them to the front not knowing when (if ever) they will return.

Jasper S. Gullo, Springfield, Ill. The Americans of Italian descent of the City of Springfield decided to aid our Government in its conduct of the war. * * * Accordingly a meeting was called to discuss the matter. It was decided that a Victory Ball be given on February 14th, and that all net proceeds would be given as a direct gift to the U. S. Government for this purpose, and to the American Red Cross Chapter here in Springfield. The net proceeds were to be divided as follows: 25% to the Red Cross; Balance to the U. S. Government. * * * The net proceeds realized from the Victory Ball amounted to $653.90, and of this amount a check for $490.42 was presented by us to our Government through Mr. V. Y. Dallman, Collector of Internal Revenue. * * * This is the first time that contributions have been made by local groups in this manner, and we are very happy to do this.

Leo H. Strauss, Travel Agency, N.Y.C. I note that today's press again makes mention of your suggestion for a "hemisphere dollar". In my opinion, a well thought-out plan of this character will do a great deal more toward furthering the "good-neighbor" policy than the sending of all types of "Good-Will Ambassadors". * * * I do believe, however, that someone in my field of business should be designated to assist in working out your plan, so that it will be ready to operate after the present emergency.

Anonymous - "One Person to Another" - Flint, Mich.
What constitutes sabotage? If occupied countries refused to produce for the Germans, we would be pleased. If the Chevrolet Motor Company could produce 4,000 cars a day, but only 30 tank motors a night, wouldn't you wonder why? If before the (our) war started they were producing trucks for the Army, and went 10 days or more without producing a crank shaft, and the same questions are being asked again -- why, with not an apparent reason -- would you wonder if the president, being a German of whom there were many rumors but no definite facts, was the cause? * * * Perhaps you will say that is Mr. Nelson's work. You mean the field man, Reuter - the bull-headed German - as he is called here. He was never a production man, but one who tore a plant wide open. Key men left while he was here. Wages were cut. Then other men had to come in and take over. Besides, he is a G. M's. man as is the "Great Dane" was and is, I am afraid you will find. We understand Reuter's last job was in Germany. Men here say they wouldn't mind so much if there was production. A draftsman with four children said he would enlist. His wife said he was needed for production. Then give us something to produce, he cried. A young family man said the boys had all the jobs, he was going to fight; and the wife cannot support the child. We're all asking - which is more important, our boys, our country, or 7% profits and a broken Union. We believe you a real American.

S. Leventhal, Scranton, Penna. There is a lot of talk about financing the war, and I would like to make a proposition to the U. S. Government. After the war is over, I would suggest that even if the debt should amount to over two hundred billion dollars, that each person in the U. S. be assessed a certain amount. In that manner, the war debt would be paid a few days after the war was over. I am not a wealthy man, I only make an ordinary living, but I would gladly pay my share, my wife's share, and also my son's share, if he comes back from the army. I would like to be the first one to make this proposition, and I assure you I will stick to it. * * * In the meantime, we are buying all the Bonds and Stamps we can possibly buy.

Comments from a letter addressed to Mr. Kuhn by Adele Thornton, Brooklyn, N.Y. Received your letter complimenting me on patriotism, and stating you are glad to know the condition of things in regard to the selling of liquor, and that you are making a study of these matters. I was so pleased I don't know how to thank you for taking an interest in my letter. The letter, you remember no doubt, was placed in your hands through the White House. * * * I am writing this to save others. I am 57 years of age, a canvasser for a large laundry, but pass for 35. * * * I am the blonde type, and register plenty of sunshine.

V. J. Kozak, Detroit, Mich. I have been unemployed for several months, after I lost three jobs, because of conversion of production into the war effort, and was wondering how I will be able to pay my income tax. February 19th I was invited for a personal interview with the technical director of the Todd and Brown, Inc., Kingsbury Ordnance Plant, La Porte, Ind., - found eligible for the open position of a chemist, promised a salary of $250 a month, and ordered to report for work today. After returning to Detroit, I received a letter from the Todd and Brown Co. saying that since I am not a citizen, they cannot employ me under Government rules. * * * I have been begging and imploring the War Department, Office of the Under Secretary, Plant Protection Division, Major Thomas A. Lane, since October 11, 1941, for a permission to be employed in war production. I emphasized that I am an ally - citizen of Czechoslovakia and that I was in the Czechoslovak army, ready to fight Germany in October, 1938, long before any other of the 26 United Nations, including U.S.A. even woke up to the reality that Germany is the common enemy of all. In spite of all my efforts, however, the gentlemen in the office of the Under Secretary of War did not do anything to make the employment for me possible. * * *

Comments on Taxation

Dorothy Emerson, Girls' Club Agent, University of Maryland, College Park, Md. Some time ago, literature came to my desk regarding the purchasing of Tax Bonds to use in payment of income taxes. Feeling that to make such purchases would be in the line of good citizenship, I bought a $25 tax bond the first of December, the first of January, and the first of February. While I understand that three months was to elapse before the payment of interest on same, I had taken it for granted that the bonds could be used at cash value in payment of my income tax. * * * The Federal Income Tax Field Representative, who made out my income tax, had never seen a tax bond, knew nothing about them, and wouldn't handle them. I went to the Internal Revenue Building and for 20 minutes, officials discussed the matter and finally advised me to go to the U. S. Treasury to get them cashed. At the U. S. Treasury, in the particular section designated for payment of bonds, I was finally sent to the Chief of the Department, who said that the bonds couldn't be cashed there, because they were purchased in the Federal Reserve Bank at Richmond, Virginia. I am now left in the embarrassing position of desiring to make a first payment on my income tax and having the money tied up in Tax Bonds that cannot be easily redeemed.

Richard Luke, Livingston, Calif. I made out our return today and mailed it in to the Collector of Internal Revenue for the sum of $731.28. We mailed it early in order that you may use it to buy implements of war to lick hell out of the Axis. 1941 has been a very good year for us.

Stockholder and American Taxpayer, (John Deere Harvester Works), East Moline, Ill. I received Congressman F. Carlson's letter imploring me as a stockholder of Deere and Company to write to Washington protesting against Secretary Morgenthau's suggestion of raising the Social Security tax to 3% and taking all over 6% of earnings of excess profits tax. I am in favor of having you do as you suggest. The Fascist Republicans have been so busy declaring war on President and Mrs. Roosevelt that you have forgotten we are at war with the Axis gangsters. (Referring to Rep. Carlson) Do not worry so much about profits. With America Firsters,

Copperheads, Winrodists and other fifth columnists hiding out in Republican headquarters all over the land, it behooves you to quit obstructing the Government and put your shoulder to the wheel. * * * I hope that I have made my position clear.

Louis Burckhardt, Milwaukee, Wis. On Jan. 28th I wrote Mr. F. Carlson, M.C. for information so I could vote intelligently on the questionnaire he sent me to be filled out and returned to him. To date I have received no reply. However, in the meantime, I have read in the daily paper what your position is in the matter, and I sure think you are correct. I have spoken to others who have received the same questionnaire, and they knew little about the subject, but they nevertheless returned the card filled out. They now admit that since they understand the matter better, they have changed their mind. * * * I am ashamed of the methods used by some of our Congressmen to influence legislation. Let us get more honesty in our dealings with each other, for democracy can only live and grow by the faith we have in each other. Such shady business is rotten business, and casts a doubt as to whether our freedom can be won and retained through such democratic processes. Therefore, please transmit my protest to the House Ways and Means Committee.

L. Modula, The Sea Gate Association, New York Harbor, N.Y. * * * I remember Secretary Morgenthau's proposition, as mentioned in the papers some time ago, to tax employees 15% of their salary at the source. Personally, I approve of this plan, because the average man who enjoys a steady salary usually spends what he makes, especially if he has a family.

George E. Klone, Glenbrook, Conn. I have read your Tax Saving Plan (Know Your Taxes) and bought one $50 note last August. When I went to Internal Revenue Office in the Post Office in Stamford, Connecticut, to pay my tax, the man in charge would not take the note. Could your Department and the Post Office work out a system where I could buy a Money Order for the amount of the Tax? If the income tax I am required to pay this year is not as large as the Note, I could

get another Money Order for the balance, and hold it over for the next year. My tax this year is $40.54 -- the other one could be made out for the difference of the value of my $50 note.

George C. Hessel, N.Y.C. This letter is written in a friendly spirit. I feel that when it comes to love of one's country, I am as good an American as anybody. I note that you are not satisfied with the amount of USA Savings Defense Bonds that the public has bought. * * * I guess its mainly because the average family cannot afford to pay Federal and State income taxes and have any money left with which to purchase Defense Bonds. Mine is an average American family. I feel my first obligation is to buy enough U. S. Treasury Tax Notes each month so that by the end of the year I'll have sufficient of them with which to pay my Federal Tax. I bought sufficient of these Notes in 1941 with which to pay my tax in 1942, and now in this year, 1942, I am buying Tax Notes with which to pay my Federal tax in 1943. * * * If I have no money in 1943 with which to pay my Federal taxes, you won't be interested in knowing how many Defense Bonds I have, but will want to know how come I did not pay my taxes. I also believe it would put the Government to a lot of unnecessary expense if people bought Defense Bonds and some months later cashed them in and used the money to pay taxes. * * * It's human nature to live as well as you can. People also quickly adjust themselves to live on what they have. For that reason, I believe it is best to deduct Federal taxes at the source. If your employer deducts the tax each month from your salary and hands it over to the Government, in a month or two you adjust yourself to the lower income, and in that way, one is always on friendly terms with the Government.

H. P. Will, Special Agent, New York Life Insurance Co., Oklahoma City, Oklahoma. I just paid part of my income tax for 1941. I only paid one-half (for I did not have enough in the bank to pay it all.) I don't feel very good over it. The tax this year is almost five times as high as last year, and God knows it was high enough last year. At the rate the Government is going to tax us people, what is going to become of us? * * * I am a man going on 70 years of age, and the tax - most of it - was on invested money that I had saved years ago for myself and wife for our old age. But the way it looks now, I will not have anything left for old age, after this high taxation and high cost of living which the Government is imposing on us. * * * I was just wondering if the Government could not reduce this huge war expenditure by about one-third or one-fourth and get just as much done in the way of winning the war, and lighten the burden of taxation on us citizens who helped build up this good old U.S.A. years ago. * * * I would suggest if the Government has to have more taxes, why not get it or most of it from the Defense workers and big businesses on those defense jobs, etc., if not all that way, I think a Sales Tax is the next best way.

Max Stark, Provident Mutual Life Insurance Co., Champaign, Ill. Your opposition to a Sales Tax as expressed strongly at a conference of Chairman George and Representative Doughton, is commendable. It is to be hoped that your opposition is not one of those trial balloon affairs. If Congress wants a flood of mail such as it received when it voted pensions for its members, just let it pass a Sales Tax. That would be Major Blunder No. 2. I am only an average citizen who realizes what other average citizens are thinking, even though they do not take time to write to you or their Representatives. Senator George is dealing in wishful thinking if he believes there is a growing sentiment in the country in favor of a Sales Tax. People will stand for increased income taxes, taxes on luxuries and amusements, but when it comes to taxing the necessities of food, clothing and fuel, you will hear from them. In view of the increased prices for food and other necessities, this would be heaping insult upon injury.

For your information.

February 27, 1942.

To Archibald MacLeish

From Alan Barth

EDITORIAL OPINION
ON THE WAR:
CALL TO ARMS

Tonic

Calm confidence was miraculously restored to jangled editorial nerves by the President's fireside talk on Washington's Birthday. Apparently the speech was pitched in precisely the key to which editorial ears were attuned; almost all commentators found it, as did The New York Herald-Tribune, "a calm and factual report," infinitely more reassuring than "oratory."

Although The New York Daily News disparaged the President's use of maps as "practical showmanship," most of the press heartily approved of the lesson in geography. The Scripps-Howard papers, for example, felt that, "Patiently and carefully, he spelled out the military nature of this world conflict in which no one Allied front can be isolated from another, except at our peril. He answered, clearly and fairly, typical questions which have arisen from lack of understanding of such a world conflict." And The Akron Beacon-Journal, which has not

always been friendly to Administration foreign policy, observed that "The value in the President's report was that he gave us perspective ... Best of all, he swept away rumors and apprehension and gave us facts and figures."

The portion of Mr. Roosevelt's address which produced the greatest interest and hopefulness was the assurance that "Soon, we and not our enemies will have the offensive." Only a few isolationist stalwarts objected to this philosophy, openly turning "turtle." The New York News Syndicate's editorial stated: "We happen to think the defense of the United States is our prime job, and the war with Japan our main war. But that is beside the point. The point is that if the arsenal of democracy is stripped of too many of its own defenses it will be laid open to invasion and conquest."

Almost equal stress was placed by a majority of newspapers on the President's promise that "We shall not stop work for a single day." The cessation of work in San Francisco shipyards on the day that Mr. Roosevelt spoke was singled out for ironic and bitter comment. Few commentators placed any of the blame upon the employers who refused to pay double-time in accordance with their contracts; the stoppage was generally attributed

either to a willful disregard of General MacArthur's plight on the part of San Francisco workers or to the failure of the Government to frame an authoritative national policy on wages and the closed shop.

The Washington's Birthday address was made the occasion for warm expressions of confidence and for hearty tributes to the President's foresight, leadership and grasp of world affairs. But along with this current enthusiasm for the President himself, there is a mounting discontent with the advisers surrounding him. Even the newspapers most in sympathy with his foreign policy urge that he make changes in his Cabinet, citing the recent upheaval in the British Government as a healthy example.

Gesture

Most morning newspapers on the day following the President's address gave their top headlines to the news that a Japanese submarine had shelled the California coast. Editorially, however, most of them insisted that the raid achieved nothing save a confirmation of one of the President's principal theses: that "the broad oceans ... have become endless battlefields."

The bulk of the press (Far Western papers are not yet available) took the incident calmly. Most commentators agreed with The St. Louis Post-Dispatch that "The motive of such

'nuisance attacks' is more psychological than strategic, for it is the Axis idea that they will terrorize Americans into panicky confusion and demands that the Navy be used for coast defense." And most of them bear out the same newspaper's contention that "The Axis master minds are mistaken. An attack upon the mainland rouses anger, not fear, in Americans, and strengthens their determination."

Recognition

Commentators refrained from lyricism in their appraisals of Premier Stalin's Order of the Day to the Red Army. But they also, on this occasion, notably refrained from paying their customary disrespects to Communism and the Soviet Union. Many of them granted a more or less grudging tribute to the Russian leader's realism and determination. The Cincinnati Enquirer called it a "powerful speech."

There was particular interest in and praise for the section of the speech which distinguished between Hitler and the German people. A number of editorial writers suggested that the other United Nations might well follow this example.

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Liberation

Somewhat belatedly the press has awakened to the significance of Chiang Kai-Shek's visit to India. The commentators are now busily putting together the Generalissimo's statement, Prime Minister Churchill's decision to grant India additional self-government powers and the appointment of Sir Stafford Cripps to the British War Cabinet; out of this combination of circumstances a number of them spell Indian independence.

There has long been a latent sympathy among liberal American editorial commentators for Indian nationalist aspirations. The sympathy is now stimulated by a spreading belief that India's vast war potential can be harnessed to the United Nations' cause only by a promise of full Dominion status. Some, like Walter Lippman, feel that "the western nations must now do what hitherto they lacked the will and the imagination to do: they must identify their cause with the freedom and the security of the peoples of the East, putting away the 'white man's burden' and purging themselves of the taint of an obsolete and obviously unworkable white man's imperialism."

There seems to be developing a nascent sense that the status quo can not be restored in the East, any more than in the West. It is part of a growing appreciation of the United Nations concept -- and a partial translation of this concept into terms of united peoples. There is a vast, untapped, potential fervor in the United States for a genuine war of liberation.

For your information.

February 27, 1942.

To Ferdinand Kuhn, Jr.

From Joseph Melia

EDITORIAL COMMENT ON TAXES:
LABOR AGAINST THE FIELD

On the eve of the long-awaited hearings on the largest tax bill in history, virtually no editorial attention is being given to the specific tax proposals that have been rumored from Washington. The press is concentrating on the war. Discussion of the domestic front is confined almost entirely to renewed attacks upon organized labor and continued demands for government economies. What little comment there is on taxation follows the same line persistently advocated by the majority of the press. In the words of the Kansas City Times, instead of "following the line of least resistance and going back over and over again to the same tax sources," Congress must dig deep into excess purchasing power by levying drastic new taxes.

"We are still assuming that we can pay for the war by imposing taxes upon the savings or potential savings of the community," Ralph Robey, conservative columnist for Newsweek, believes. "We have not yet come to the point of realizing that

we must have taxes on purchasing power -- taxes that don't just skim off a bit of the surplus that all of us can get along without, but taxes that cut into the basic essentials of our standard of living ... In this war one can no more have comfort and victory than he can have guns and butter. It is time to forget social reform and start winning the war. We need, and need immediately, either a sales tax or a withholding tax, or perhaps both."

There is hardly an editor in the country who disagrees with Mr. Robey that a sales or withholding tax is necessary to obtain an unprecedented amount of revenue and check inflation. But Mr. Robey stands almost alone in suggesting that we may eventually need both types of taxes and in implying that either type would be equally acceptable now.

By far the majority of the press strongly opposes a withholding tax and favors a general sales levy. "Bring on that sales tax," Collier's magazine demands. "The only productive tax device left to be used," says the Wall Street Journal, "is one that will follow the increase in the national income to the hands of its chief and most numerous recipients. A general retail sales tax will do that." The Philadelphia Inquirer

editorializes: "The plan for wage deductions at the source has apparently run against a stone wall, as it deserved. But unless a sound alternative is adopted, the pernicious proposal may be forced into the new tax bill... A comprehensive sales tax, that would raise billions of dollars with the least hardship to the people is strongly indicated as the way to insure fairness to all..."

It is argued that a withholding tax would bear heavily on low and middle-income workers, while farmers and professionals could escape. A sales tax on the other hand, editorial writers maintain, would distribute the burden "painlessly" among all groups.

The intensity of the sales tax drive is indicated by this week's announcement of the National Retail Dry Goods Association that, changing its policy of the past 22 years, it will advocate a general levy on sales at the forthcoming hearings on the new revenue act. Retailers have been among the most persistent opponents of a sales tax. It is significant that 87 percent of the members of the NRDGA, one of the two powerful national retail organizations, voted for this change in the Association's policy. Not since 1920 has a majority of the NRDGA favored a sales tax.

Labor Will Fight

Last year organized labor did not lobby actively on the tax bill until the fight was almost over. But it appears that this year's tactics will be different. The unions are preparing to contest any proposal to place a levy on sales or wages, instead of on profits, "incomes" and luxuries. Labor leaders view the present tax system as heavily weighted in favor of business and the rich, with wage earners being called upon to make most of the necessary wartime sacrifices. Prominently featured in almost every issue of union publications are stories disclosing excessive industrial profits and bearing such headlines as "Taxes of 'Little Fellow' to Fatten Munitions Profits." This headline appeared recently on page one of Labor, nationally distributed organ of the Railroad Brotherhoods.

"There is no question that additional taxes are needed, and that every patriotic American should be ready to pay his fair share," said the current issue of the CIO News. "But unless labor is alert, the lobbyists and political agents of special privilege will so stack the cards that profiteers will escape paying their fair share, while an undue burden will be placed on those least able to pay..." The News went on to urge all CIO

locals to "contact" their Congressmen, particularly members of the House Ways and Means Committee, and demand that tax loopholes be plugged and that new taxes be imposed on profits, "incomes" and luxuries, rather than on wages or sales.

Two days after the appearance of this editorial, President Philip Murray sent a letter to every CIO local reiterating the points made by the CIO News. He, too, urged the locals to communicate with their Congressmen. He warned that "unceasing vigilance" would be required to pierce the "cloud of secrecy which surrounds tax legislation" and to counteract the influence of "a substantial group in Congress, aided and abetted by the National Association of Manufacturers, Chambers of Commerce and other reactionary groups, which is anxious to have heavy sales taxes or wage taxes become the major source of revenue."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1942

TO Secretary Morgenthau

FROM Mr. White

SUBJECT: Alvin Hansen on Full Employment after the War

Alvin H. Hansen has written, for the National Resources Planning Board, a pamphlet entitled "After the War -- Full Employment". This pamphlet is being frequently referred to. You may wish to know the general trend of its argument. Hansen's main points are:

1. If the victorious democracies give their peoples mass unemployment after this war, there will be "social disintegration and, sooner or later, another international conflagration".

2. All classes of the community now expect a terrific post-war collapse.

3. When the war is over, we shall probably have greater productive resources in this country than ever before in our national history. Without undue encroachments on leisure, we shall be able to produce a national income of at least $100 billion, at 1940 prices.

4. "The notion that we cannot finance our own production is quite without foundation. Every cent expended, private and public, becomes income for members of our own society. Costs and income are just opposite sides of the same shield. We can afford as high a standard of living as we are able to produce. We cannot afford to waste our resources of men and material. We cannot afford to use them inefficiently. But we cannot afford idleness."

5. It is necessary for the Government to use priorities, taxation and borrowing which limits consumption to reduce private expenditures at the present time. But in the post-war period it will be necessary to lower taxation and to borrow from funds which would not otherwise be used for consumption or private investment. "A public debt is an instrument of public policy. It is a means to control the magnitude of the national income and, in conjunction with the tax structure, to affect income distribution."

6. Unless Government, in the post-war period, does its part to insure sustained demand, we shall dissipate our great opportunities for a high standard of living and progressive, peaceful social improvement.

7. Hansen argues that, over a period of a few years, our potential output can be considered, without serious error, to be governed by the size of the available labor supply.

a. For war-time. In 1918 about 61 percent of our population aged 14 and over were either gainfully employed or else were in the armed forces. With our present population, the same ratio would yield total employment of about 62-1/2 million persons. Actual employment at the present time is about 10 million below this (of which about 1 million may be attributed to the seasonal decline in agricultural employment.) If we assume that war-time pressures can give us the same ratio of employment to total population over 14 years of age as in 1918, we still have the labor supply with which to expand total income substantially -- until the armed forces greatly increase their claim on the available labor supply.

b. For peace-time. During peace, we prefer to take a much larger part of our income in leisure than during war, and therefore 1918 employment ratios are less relevant to measuring our peace-time income potential than are 1929 ratios. But, should 1945 be a year of peace and should we then have the same ratio of employment to population as in 1929, we would have about 58-1/2 million persons employed. Even assuming no increase in labor productivity, our national income would be well above $100 billion, in pre-war prices.

8. With a national income of $100 billion, we might consume as much as $80 billion -- given a considerable war-time "backlog" of demand. Public and private investment would account for the other $20 billion. In the immediate post-war period private investment may be very substantial. But should private investment slacken, national income could be sustained only by (a) public investment or (b) public measures to redistribute income in favor of consumption.

NATIONAL RESOURCES PLANNING BOARD

AFTER THE WAR—FULL EMPLOYMENT

POST-WAR PLANNING

January 1942

This pamphlet is the second in a series issued by the National Resources Planning Board on problems and planning in the Post-War Period. The first pamphlet was, *After Defense—What?* This statement on full employment was prepared for the Board by Dr. Alvin H. Hansen, Littauer Professor of Economics, Harvard University, and Special Economic Adviser to the Board of Governors of the Federal Reserve System.

Prior to final printing, a pre-print edition was circulated to members of the Federal Reserve Banks and to a group of businessmen, economists and labor leaders for criticism and suggestions. Dr. Hansen has made numerous revisions in the text as a result of the many helpful comments which were received. The National Resources Planning Board gratefully acknowledges the assistance of these critics.

AFTER THE WAR—FULL EMPLOYMENT

By Alvin H. Hansen

WAR AND POST-WAR AIMS

The immediate aim of the American people is to preserve and safeguard political freedom. But a military victory for the democracies is not enough. If the victorious democracies muddle through another decade of economic frustration and mass unemployment, we may expect social disintegration and, sooner or later, another international conflagration.

A positive program of post-war economic expansion and full employment, boldly conceived and vigorously pursued, is imperative. Democracies, if they are going to lead the world out of chaos and insecurity, must first and foremost offer their people opportunity, employment, and a rising standard of living.

THE EXPECTED POST-WAR SLUMP

The fact is that many people dread to think of what is coming. Businessmen, wage-earners, white-collar employees, professional people, farmers—all alike expect and fear a post-war collapse. Demobilization of armies, shut-downs in defense industries, unemployment, deflation, bankruptcy, hard times. Some are hoping for a post-war boom. We got that after the first World War. Not improbably we may get it again. If the war lasts several years, we may have at the end of the war sufficient accumulated shortages in residential housing, in durable consumers' goods such as automobiles, and in the plant and equipment required to supply peacetime consumption demands, to give us a vigorous private

investment boom. Indeed, we need to be on the alert to prevent a possible post-war inflation. If in fact we do experience a strong post-war boom, there is, however, the gravest danger that it will lull us to sleep. Sooner or later such a boom will end in a depression, unless we are prepared. If appropriate action is taken, there is no necessity for a post-war collapse.

Everywhere one hears it said that, when this war is over, all countries, including our own, will be impoverished. This view is, however, not sustained by past experience. No country need be impoverished if its productive resources (both capital and human) are intact. The productive resources of this country will be on a considerably higher plane when this war is over than ever before. A larger proportion of our population will be trained to perform skilled and semi-skilled jobs. We shall have enormous productive capacities in all the machine industries. And in special consumers' durable industries, where plant and equipment may have become deficient by reason of the war, we shall be able very quickly, with our large basic machine-producing industries, to expand to meet the peace-time requirements. We shall have, when the war is over, the technical equipment, the trained and efficient labor, and the natural resources required to produce a substantially higher real income for civilian needs than any ever achieved before in our history. Whether or not we shall, in fact, achieve that level of income will depend upon our intelligence and capacity for cooperative action.

We have to make up our minds as a Nation that we will not permit a post-war depression to overwhelm us. We do not have to take economic defeat after the military victory is won. We can, if we will, maintain business prosperity. We can sustain a continuing demand for goods. We can keep industry going at high levels. We can maintain substantially full employment. We can achieve a society in which everyone capable of and willing to work can find an opportunity to earn a living, to

make his contribution, to play his part as a citizen of a progressive, democratic country.

An important gain will, we may hope, be won from the defense program in the struggle to achieve and to maintain full employment. We have every reason to expect the national income to rise to around $100 billions, in terms of 1940 dollars. It will be much easier to muster support for a program to resist a decline from a high income level than it has been in recent years to win approval for an adequate program to *raise* income to full employment from a low level. But we must be vigilant lest this gain slip from our grasp. If we let the income slide from 100 to 90, 80, 70 billion dollars, we will have to make the old uphill fight all over again. We must deliberately set out to hold the new income level and to push it higher as rapidly as increasing productivity will permit.

DEMOCRATIC PLANNING FOR FULL EMPLOYMENT

We do not want the Government to run the whole show. We do not want a totalitarian state. We want freedom of enterprise. We want freedom for collective bargaining between employers and employees. We want freedom for cooperative action. We want freedom of choice of occupation.

If purchasing power is maintained at a high level, we need have no fears that private manufacturers, retailers, wholesalers, and farmers will not come forward and supply the market with the goods demanded by the public—a rich variety of goods at reasonable prices. Private business can and will do the job of production. It is the responsibility of Government to do its part to insure a sustained demand. We know from past experience that private enterprise has done this for limited periods only. It has not been able to insure a continuous and sustained demand. The ever-increasing gigantic powers of production of the modern industrial system, far

exceeding that of any earlier experience in history, means that an enormous output has to be reached before full employment is approached. Private industry and Government together must act to maintain and increase output and income sufficiently to provide substantially full employment.

When the war is over the Government cannot just disband the army, close down munition factories, stop building ships, and remove all economic controls. We want an orderly program of demobilization and reconstruction. The Government cannot escape responsibility. To fulfill its responsibility it needs the hearty cooperation of business, labor, farmers, and the professions in the great task of developing a vigorous, expanding and prosperous society.

This we all want, but—can private enterprise survive such a program? And how about taxes and the public debt?

A positive governmental program looking toward full employment would greatly vitalize and invigorate private enterprise. An expansionist program would permit private enterprise to operate at high output levels. There is plenty of work to do. We need improved manufacturing equipment to produce more and better goods at lower prices. We need to carry on extensive research in the laboratories of our great private corporations, in our universities, and in Government bureaus to create new products and develop new processes. We need to rehabilitate and modernize our transportation system—by land, water, and air. We need continued advance in the techniques of production, distribution, and transportation; in short in all those elements that enter into a higher standard of living. We need to rebuild America—urban redevelopment projects, rural rehabilitation, low-cost housing, express highways, terminal facilities, electrification, flood control, reforestation. Many public developmental projects open fresh outlets for private investment. We need a public health program, including expansion of hospital facilities. We need a nutrition program. We need more adequate provision for old age. We need higher educational standards in large sections of our country. We need a program to improve and extend our cultural and recreational facilities. We need an enrichment of the material and spiritual resources of our American way of life. We have seen how it is possible to mobilize the productive capacities of the country for war. We can also mobilize them for peace. Under a program of full employment new enterprises would grow up; old enterprises would expand. Youth would find opportunity and employment.

The notion that we cannot finance our own production is quite without foundation. Every cent expended, private and public, becomes income for members of our own society. Costs and income are just opposite sides of the same shield. We can afford as high a standard of living as we are able to produce. We cannot afford to waste our resources of men and material. We cannot afford to use them inefficiently. But we cannot afford idleness. The idleness of the decade of the thirties was responsible for the loss of $200 billions of income. The public expenditures required to rebuild America, to provide needed social services, and to maintain full employment can be provided for out of the enormous income which the full utilization of our rich productive resources (material and human) makes possible. The costs of producing this income are merely payments to ourselves for the work done. There is not—there cannot be—any financing problem which is not manageable under a full employment income. From a $100 billion income we can raise large tax revenues—large enough to service any level of debt likely to be reached and to cover all other Government outlays—and still retain for private expenditures more than we had left in former years under a $70 billion income with lower taxes. Taxes are merely one way of paying for social services

and public-improvement projects which we need. But it is not necessary or desirable under all circumstances to finance all public expenditures from taxes. Whether taxes should equal, fall short of, or exceed expenditures must be decided according to economic conditions.

Everywhere it is said, and constantly reiterated, that we must tighten our belts and pay off our Government debt when peace returns. When is it desirable to pay off part of the debt? Certainly not when there is danger of an impending depression. Under certain conditions it would be desirable to do so. Under other conditions it would be quite unsound policy to retire the debt. Financial responsibility requires a fiscal policy (including governmental expenditures, loans, and taxes) designed to promote economic stability. It would be quite irresponsible to cut expenditures, increase taxes, and reduce the public debt in a period when the effect of such a policy would be to cause a drastic fall in the national income. Equally it would be financially irresponsible to raise expenditures, lower taxes, and increase the public debt when there is a tendency toward an inflationary boom.

Assume that after the war tax money is available for repayment of the public debt. Some holders of bonds receiving the repayment may wish to spend the proceeds, but most will want to reinvest. If new private investment in housing, factories, and other projects are adequate to absorb these funds together with the amount normally saved from income, the process of debt retirement will operate in a quite satisfactory fashion. But if there are not enough houses, factories, and other projects being built, the Government has no recourse (if unemployment and fall in national income is to be avoided) except to borrow the money back again and devote it to public improvement or other useful public projects.

About 75 percent of the public debt, direct and guaranteed, is held by institutions performing useful and necessary services which cannot be performed without ade-

quate income. Another 5 percent is held in the form of nonmarketable United States Savings Bonds. The institutions referred to include the social security trust funds, savings institutions, educational and charitable institutions, life insurance companies, and commercial banks. For the rest—marketable securities held by individuals and business firms—we should not forget that financial stability is frequently encouraged by investment in gilt-edged Government bonds. This aspect was stressed by the famous Colwyn Committee in England in its report issued in 1927. Stated broadly, we should keep clearly in mind the fact that balanced against the taxes required to cover interest charges are the interest receipts of institutions and individuals who own the bonds. Thus the fact is that our public debt, owned as it is mainly by institutions performing useful and necessary services, is no such burden on the community as is commonly supposed. The tax funds collected to meet interest charges are not lost. They are paid right back again, largely to institutions that benefit the community as a whole. At the worst, the taxes are collected from one group of citizens and paid out to another group—the bondholders.

The public debt is something very different from the private debt of an individual. An individual will always improve his asset position if he is able to pay off a part of his debt. But a nation may make itself poor by repayment of public debt. This is true because such repayment tends to cause deflation, depression, and unemployment. It is a good thing to pay off a part of the public debt if you want to check an excessive boom. It would be ruinous to pay off the public debt in a post-defense period when unemployment was spreading.

A public debt internally held has none of the essential earmarks of the private debt of an individual. A public debt is an instrument of public policy. It is a means to control the magnitude of the national income and, in conjunction with the tax structure, to affect income distribution.

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OUR OUTPUT POTENTIAL

Basically, our output potential is a function of our labor potential. What is important in judging the labor potential is not the number unemployed—actively seeking work—when the Census was taken in March 1940. What is important is the labor potential which we can muster.

Two bench marks are used here from which to measure our labor potential: (1) the employment reached at the peak of the 1929 boom, and (2) the employment reached at the peak of the 1918 war effort.

In the third quarter of 1929, 49.7 millions were employed, or 56.7 percent of the population, 14 years of age and over. Applying this percent to the 1940 population in this age group, we get a labor potential, based on our first bench mark, of 57 million workers. A correction is, however, necessary. The age of entrance for youths to the labor market is now higher; the age of retirement for aged persons is lower; while, on the other side, the proportion of women in the labor market is now greater. Adjusting for these changes, as revealed in the Census data, our labor potential is reduced to 56 millions for 1940. Half a million will be added annually to the number through natural growth. Thus, the labor potential by 1942 will be 57 millions and by 1944, 58 millions—10 to 11 millions in excess of the averaged employment of 1940.

In 1918, 44 millions were employed in economic pursuits or in the military force, or 61 percent of the population, aged 14 and over. Applying this ratio to the 1940 population, we get a labor potential of 61.5 millions. When adjusted for the factors enumerated above, we get a corrected labor potential, based on the 1918 war-effort bench mark, of 59 millions for 1940, or 12 millions in excess of the averaged employment in that year. By 1944, through natural growth, this would become 61 millions, or 14 millions in excess of the 1940 employment. Over and above the labor potential, we

can *divert* from our former agricultural population 2 to 3 millions without encroaching upon agricultural output. In addition, it is estimated that about 1 million, now engaged in more or less useless self-employment jobs, would gladly turn to more remunerative jobs in industry as employment opportunities develop.

It may be concluded that we may reasonably expect to have available for industrial and military employment a labor potential by 1943 or 1944 of 12 to 16 million workers in excess of the average number employed in 1940.

This labor potential cannot suddenly be put to work in industry. Experience, both in the United States and in Germany—the countries that experienced the most rapid expansion from the great depression—shows that the task of retraining and fitting large masses of labor into the productive process is a slow and difficult one. Even in a totalitarian country with its powers of regimentation and control it was not possible to increase employment except at a fairly moderate rate. In no single year, in the expansion from 1933 to 1939, was Germany, even with its compulsory labor regulations, able to absorb more than 1.8 million workers. With a population half the size of ours, this would mean, in terms of our population, 3.6 millions. And the average for the 4 best years was only 1.4 millions, or 2.8 millions in terms of our population. In the best year of the boom in the twenties, we absorbed only 3 million workers, and the average for the 4 best years was only 2.2 millions. In the best year of the recovery of the thirties, we absorbed only 2.9 millions and averaged in the 4 best years only 2.6 millions. We may thus conclude that an average absorption of 3 to 3.5 millions and a maximum absorption of 4 millions in a peak year is probably all that can humanly be achieved, especially when account is taken of the possibilities of transfer from agriculture and self-employment. On this basis we shall not reach our total potential employment for some time even if we rapidly expand our military force.

Past experience, both in America and elsewhere, indicates that output increases proportionally more rapidly than employment. This is true for the following reasons: (1) The secular rise in labor productivity tends continually to raise output relative to employment, (2) plant, equipment, and other overhead factors are more fully utilized as total employment increases, (3) in many fields, especially trade and the service industries, those already employed are occupied more continuously throughout the working day as the national income rises, and (4) the expanding industries, which absorb much of the additional labor, are "high productivity" industries. Actual experience in the United States in the boom of the Twenties and the recovery of the Thirties, and in the German expansion strongly support this theoretical analysis. In Germany, output increased more rapidly than employment straight through until full employment was reached before the outbreak of war. According to the American experience, the absorption of the potential supply of workers should enable us to increase our real income by $25 to $30 billions, in terms of 1940 prices. Thus, from the standpoint of our labor potential, we could expect the income to rise from $76 billions in 1940 to $100 or $105 billions in 1943 or 1944, assuming no increase in prices.

Miracles cannot be achieved overnight. The process of labor absorption and expansion of output takes time. In no year was Germany able to raise her real income by more than 10 percent, and the average was 9 percent. Similarly in the recovery years of the Thirties, the average increase in real income in the United States was 9 percent. Applying a 10 percent increase per annum, we get the following interesting figures for national income at 1940 prices:

	Billions
1940	$76
1941	84
1942	92
1943	101
1944	111

It is not improbable that the movement may be somewhat more rapid in the early years and somewhat retarded in the later years. We may be able to reach a real income (1940 prices) of $100 billions when our full labor potential has been realized. It is possible that shortages of basic metals and transportation may stop the expansion at $90 to $95 billions. But in the long run these shortages can be overcome.

THE POST-WAR GAP

In calendar year 1940, our national income was $76 billions. Of this, about $65 billions was expended on consumption, around $8 billions on net capital formation (over and above replacement capital expenditures)—on plant, equipment, housing, inventory accumulation, public works, and net foreign balance—and $3 billions on defense. Our output potential by 1943 or 1944, if metals and transportation shortages can be overcome, is probably around $100 to $105 billions at 1940 prices. Let us adopt as a model for illustrative purposes, $100 billions as our minimum realizable goal. Assume that the 1940 per capita consumption level is reduced. (It was higher in 1941, but 1942 will doubtless see a sharp curtailment in automobile purchases and also in the purchase of electrical equipment and other consumers' durables which encroach upon defense output.)

Let us suppose that consumption as a whole by 1943 or 1944 will fall below the 1940 level. Assume that $55 billions of the $100 billions would be spent on consumption. Considerably less than $8 billions per annum would be adequate for net capital formation. This is true because, of the $8 billions so spent in 1940, $2 billions was for inventory accumulations, $1 billion was for net foreign balance, while the net for housing and public works (over and above replacement) was about $3 billions. We cannot continue to accumulate inventories; the foreign balance will henceforth be financed (under Lend-Lease) mainly from the war budget; while

housing and public works will certainly be considerably curtailed before long. Five billion dollars (which together with replacement expenditures would give us $14 to $15 billions of *gross* capital formation) may thus be set down as adequate for *net* capital formation, exclusive of the plant and equipment financed from the Federal defense budget. (In passing, it may be noted that only $3.8 billions per annum was expended on plant and equipment (net) in 1927–29.) Thus, $40 billions would be available for the war. This may be regarded as a minimum. We may be compelled before we are through to expend half of our income on the war effort. The national income may thus be apportioned, for illustrative purposes, as follows:

Components 1943 or 1944 income

[in billions; and at 1940 prices]

Consumption	$55
Net capital formation	5
War (including outlays for plant, equipment and Lend-Lease)	40
Total national income	100

When the war is over and the $40 billions for war is curtailed, we shall be confronted with a gap that has to be filled by consumption and net capital formation if we are to maintain full employment.

We have assumed that consumption would be held down to $55 billions during the war effort. It is not likely that this could be achieved without (1) the imposition of heavy income and consumption taxes during the war effort, (2) part payment of the increased wage and salary bill in defense bonds (Keynes' plan), and (3) large voluntary purchases of defense bonds. If these ends can be achieved *during* the war period, the post-war release of funds thus diverted would help greatly to raise post-war consumption and so fill part of the gap from curtailment of war expenditures.

In the post-war period, the problem is how to fill the

gap left when war expenditures are curtailed. Let us suppose the following components of the post-war national income:

Post-war income components

[in billions; and at 1940 prices]

Consumption	$80
Net capital formation (including public works and housing)	10
Defense (including International RFC)	10
Total	100

This model presupposes that consumption will have been lifted from 55 billion dollars during the war period to 80 billion dollars in the transitional post-war period. In the immediate post-war transition, the increase in consumption might come (1) partly from the full cash payment of wages and salaries in lieu of the assumed partial payment of wages and salaries in defense funds during the peak of the war effort; (2) partly through the conversion of the accumulated defense savings into cash by selling the defense bonds to banks or to individuals desiring to save and the expenditure of such sums on durable consumers' goods with respect to which, in all probability, a large backlog of deficiencies will have accumulated during the war period; (3) partly through an expansion of consumers' credit which we may assume will have been reduced to small proportions during the war period; (4) partly through a sharp reduction of the taxes imposed during the war period on liquor and tobacco, together with the complete abolition of excises on consumers' durables and luxury products; (5) partly through a shift (especially in the middle and upper income classes) from the purchase of defense bonds to enlarged consumption expenditures, especially on durable goods, and (6) partly through an enlarged program of Federal expenditures on social welfare, including family allowances; food stamp plan and other food subsidies designed to improve nutrition, including school lunches; greatly enlarged public health program; revised

and expanded program for old age assistance and old age pensions; and Federal aid to education to bring up the standards in backward areas.

The model further assumes a considerable increase in *net* capital formation from 5 to 10 billion dollars per annum. Including replacement expenditures, gross capital formation would thus amount to about 20 billion dollars. The net figure of 10 billion dollars includes inventory accumulations, net investment (over and above replacement expenditures) in plant and equipment, and in residential buildings and public works. All these areas (except inventories) may have been starved during the defense and war period, and, accordingly, large shortages may have accumulated requiring greatly increased capital outlays. Capital expenditures might well, for a year or two, rise to a level considerably above the figure indicated. After the last war a tremendous spurt occurred, lasting from the spring of 1919 to the middle of 1929, in investment in manufacturing plant and equipment.

The model further presupposes a figure of 10 billion dollars for military outlays, including post-war international loans financed by the RFC as an integral part of some sort of International RFC set up to engage in international lending and designed to facilitate the rehabilitation and reconstruction of countries devastated by the war, and the expansion of investment in industrially backward countries, including South America and China.

Altogether the various factors enumerated above indicate the great possibilities for the expansion both of consumption and of private investment during the transitional period. Indeed, the potentialities for expansion of consumption and private investment in the immediate post-defense period are sufficient to indicate the possibility of a genuine and fairly prolonged post-war boom. The Federal Government should be prepared to play a balancing role, checking any temporary tendency toward

an excessive boom, and, on the other hand, prepared to go forward with large Federal expenditures on public improvement projects to compensate for any strong tendency toward deflation and depression.

SHIFT TOWARD A HIGH CONSUMPTION ECONOMY

From the long-run standpoint, a persistently pursued policy to maintain full employment raises interesting questions with respect to the effect of such a policy on (1) the distribution of income, and (2) the proportion of a full employment income which, it may be expected, would be expended on consumption. In brief, it is reasonable to suppose that the ratio of consumption to income in a full employment economy would automatically tend to be higher than the ratio of consumption to income at the peak of a boom in a violently fluctuating economy. A full employment economy would tend automatically toward a distribution of income favorable to high consumption. This affords ground for optimism with respect to the feasibility of a positive program designed to maintain full employment. Such a policy, if successfully pursued, tends to develop repercussions upon the distribution of income which reinforce the program to maintain full employment.

That this is true can best be seen if we analyze the problem of corporate profits in a society continually operating at a full employment level. Peak prosperity profits have never in the past been realized for any considerable period of time. In a highly fluctuating society such as we have known, normal profits are some sort of average of good times and bad times. Thus, for example, in the period 1925–1940, the net income of corporations fluctuated very violently in relation to the total national income. In periods of high prosperity, the ratio of net income of corporations to the total national income was high, while in periods of depression,

despite a fall in the national income, the ratio of the net corporate income to the total national income was low. Over the entire 16-year period from 1925–40, inclusive, the corporate net income averaged only 4.6 percent of the national income. It should be remembered, moreover, that this 16-year period included many years of serious depression, so that the average national income was relatively low. In other words, corporate profits constituted only a low percent of a small national income—small in comparison with the income potentially realizable.

In a highly fluctuating society, corporate profits are high in good times and extremely low in bad times, but the average must be adequate to motivate a profit economy and insure its workability. If, however, it were possible to maintain continuously a full-employment national income, it is obvious that corporate profits, representing the same percentage of national income as that averaged over the cycle in the past, would yield an absolute profit figure far above the experience of 1925–40. Yet such a percentage continuously maintained would be much lower than the high ratio of profits to national income reached in a fluctuating society in the peak boom years.

In a society operating at continuously full employment, it is not probable that peak-prosperity profits (in 1925–29 approximately twice the average for the entire period 1925–40) could indefinitely be maintained. In a fluctuating society such high profits are necessary to offset the losses of the depression years, but it is unreasonable to suppose that profits of the magnitude of boom periods would be realized indefinitely in a full employment system. They would almost certainly be eaten into, partly by competitive price decreases benefiting consumers and partly by the pressure for higher wages which invariably occurs in industries making large profits. Either development would tend toward a more equal distribution of income than has prevailed

in the past *in boom periods* when full employment was reached. This is true because of the relative decline in the ratio of business profits to the national income *at full employment levels*. Yet, if a full employment income were continuously maintained, the ratio of business profits to national income over the whole cycle would probably be greater than that experienced in the past, while the *magnitude* of business profits would be considerably greater, owing partly to the higher average ratio, and partly to the higher average national income for the whole period.

It must be recognized, however, that there are certain limitations on how far profits can be encroached upon, either through wage increases or price decreases, without encountering unfavorable economic repercussions with respect to the cost-price structure. Wage increases and price reduction are likely to cut across all firms in an industry, whether they make profits or not; and wage increases are likely to spread even to industries which are not making abnormally large profits. Thus, the process of encroachment upon boom-time profits through wage increases and price reduction, if carried too far, may disrupt the appropriate balance in the cost-price system.

Redistribution of income through progressive individual and corporate income taxes is less disruptive of these relations for the reason that such taxes apply only where the profits and income actually emerge. They do not effect the high-cost industries which make no profit. As already indicated, there are limitations upon the process of redistribution of income through the methods of wage increases and price reduction. These methods are feasible up to a certain point, but the point is fixed by the requirements of cost-price balance.

Consumption can, nevertheless, be very materially raised through wage and price adjustments in a society continuously maintaining full employment. There would still remain, by reason of continuous capacity output, adequate profits to sustain and motivate private

enterprises—indeed, better profits than those experienced on the average in a highly fluctuating society.

Such a shift evolving gradually could add several billions of dollars per annum to consumption expenditures at full employment levels. In addition, continuing improvement in labor productivity as a result of technical progress would make possible progressive wage increases without encroaching on the necessary profits required to motivate a private enterprise economy.

In a later post-war period, following the transitional readjustment, we may assume a gradually increasing national income. In terms of 1940 prices, 95 to 100 billion dollars of national income by 1943 or 1944 appear, as indicated above, to be feasible. Accordingly, it should not be unreasonable to suppose that by reason of (1) increased productivity and (2) population growth, the national income might rise to around 110 billion dollars by 1950.

The components of such a national income, for illustrative purposes, might be set down as shown in the following table:

Components of national income, 1950	*Billions*
Consumption	$90
Net capital formation (including public improvements, public housing, and International RFC)	15
Defense	5
Total	110

CONCLUSIONS WITH RESPECT TO POLICY

Obviously, the income models set down above can have no validity as statistical forecasts. They are useful, if at all, only as aids to analysis and formulation of policy. They suggest certain conclusions.

First, with respect to the war period, the following policies are indicated:

(1) High corporate-income and excess-profits taxes.

(2) Sharply progressive estate taxes.

(3) Broadening of individual income-tax base together with steeply graduated surtax rates.

(4) Sharp increase in excise taxes on commodities competing with the war program.

(5) Part payment of wages and salaries in defense bonds.

(6) Qualitative shift in the components of consumption.

Second, with respect to the post-war period, the following policies are suggested:

(1) Retention of progressive (graduated) tax structure and broadened tax base, with major emphasis on the individual income tax and less reliance on the corporate income tax.

(2) Sharp reduction in defense consumption taxes.

(3) Adequate plans by private enterprise for private-investment projects in manufacturing plant and equipment, in railroads, public utilities, and housing.

(4) Adequate program of public-improvement projects including a nation-wide development of national resources, express highways, urban redevelopment (involving among other things outlays in terminal facilities and reorganization of urban transportation), and a reorganized public housing program (including the setting up of a Housing Research Laboratory designed to reduce construction costs and thus enlarge the scope of private housing construction).

(5) Expansion of public-welfare expenditures—Federal aid to education, public health, old-age pensions and family allowances. This involves partly an expanded program, and partly a means of reducing State and local property and consumption taxes, thereby stimulating private consumption expenditures.

(6) International collaboration to pursue internal policies designed to promote active employment; to explore developmental projects in backward countries; and to implement ways and means to open outlets for foreign investment, promote world trade and the effective world-wide use of productive resources.

U. S. GOVERNMENT PRINTING OFFICE: 1948

INCOMING CABLEGRAM

Date: February 27, 1942

From: Bern

Federal Reserve Bank of New York

New York

#6

In order to proportionate better our holdings of gold and devisen we beg you to earmark for our special earmarked gold account with you approximately $20,000,000 fine gold debiting equivalent to the account of our Zurich office value today Stop Please cable details both parties.

(Sgd.) Banque Nationale Suisse

(Received by telephone from Federal Reserve Bank of New York, N.Y. 11:15 a.m., February 27, 1942)

lc

Feb 27 1942

My dear Mr. Secretary:

From time to time, I have been disturbed by the possibility that the French might attempt to remove the gold which they now presumably hold at Martinique. This possibility is particularly troubling now when there are evidences of increasingly strained relations between France and the United Nations over the question of French assistance to the Axis in the Mediterranean and the Far East.

As you are aware, the gold at Martinique has never been measured by United States officers, and estimates of its value vary by several tens of millions of dollars. There is no direct participation by United States officers in guarding this gold and in controlling its movement.

I very much hope that you will find it possible, without neglecting other considerations of foreign policy, to arrange to have the gold at Martinique weighed to ascertain its exact value, and then to have United States officers participate in guarding it, to assure that it is not removed.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

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

DG:mw
2/25/42

Rec'd Surg. Office

Treasury Department
Division of Monetary Research 255

Date February 25, 1942 19

To: Secretary Morgenthau

From: Mr. White

Subject: Martinique - Gold

Mr. Viner thought that it would be desirable, before sending a letter to the Secretary of State, that I talk this matter over with a high officer of the State Department. I accordingly called Assistant Secretary Berle. Mr. Berle indicated that he also had been troubled about the position of the French gold at Martinique and that it would be helpful if a letter were sent to the Secretary of State by the Secretary of the Treasury on this question.

H.D.W.

MR. WHITE
Branch 2058 - 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 23, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Control over French Gold at Martinique

In view of the possibility of increasingly strained relations between the United Nations and the Vichy French, precipitated by such incidents as the supplying of the Axis from Tunisia, it may be desirable now to have officers of the United States measure the French gold at Martinique and take steps to assure that this gold is not removed from our control.

It is true that this question is primarily a State Department, rather than a Treasury, responsibility. However, since it is gold that is involved, and since the gold is located in this hemisphere, the public is certain to blame the Treasury somewhat if we should wake up one day and find that the gold is gone. If the State Department believes that reasons of high policy prevent the measurement and control of this gold, they should be made to go on record to this effect and acquit us of all further responsibility in this matter.

If you agree, with the position stated above, I suggest that you send the attached letter to Secretary Hull.

History of the Case

1. During June or July 1940, gold arrived at Martinique which was reported by Mr. Cochran to be worth about $245,000,000.

2. In November 1940, Admiral Greenslade was assured by the French Commanding Admiral at Martinique that none of this gold had been shipped from Martinique and none would be.

3. In January 1941, the French Embassy proposed that they sell us part of the gold in Martinique for free dollars to be used to purchase supplies for North Africa.

4. On December 4, 1941, the American Consul in Martinique visited vaults and saw there boxes which he was told contained gold to an approximate weight of 281 metric tons .900 fine (which would be worth about $285 million).

5. On December 17, 1941, Admiral Robert gave the United States Consul assurance in writing that the gold was still intact.

6. On January 16, 1942, the State Department instructed the United States Consul at Martinique, at his discretion, to request the French officials in Martinique to open the boxes alleged to contain gold for his inspection.

7. On February 11, 1942, the United States Consul at Martinique replied that a request to open the gold boxes would be highly inadvisable because it would be strongly resented.

THE WHITE HOUSE
WASHINGTON

February 13, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION

F. D. R.

February 11, 1942

STRICTLY CONFIDENTIAL

My dear Mr. President:

Reference is made to your memorandum of February 9, 1942, transmitting a letter and its enclosures from the Secretary of the Treasury, dated February 6, 1942, relating to the continued shipment of gold from French North Africa to Germany.

You will recall that various shipments have taken place over a period of more than a year and in the past we have indicated to the French Government our opposition to these shipments and have transmitted protests from the Belgians in regard to the movement of their gold.

I agree that it would be desirable to stop, in so far as possible, the delivery of this gold to Germany.

The President,

The White House.

A copy of Murphy's telegram from Algiers, dated January 20, 1942, with the suggestion that the contraband traffic might be stopped if one of the planes were to be intercepted, has already been communicated to the British, and I shall make a copy of the further memorandum from the Secretary of the Treasury available to them with the same suggestion.

Faithfully yours,

Sumner Welles

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 27, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	$69,000
Purchased from commercial concerns	$19,000

Open market sterling remained at 4.03-3/4, with no reported transactions.

The Cuban peso moved off to an offered quotation of 1/4% premium, as against 1/32 yesterday and 3/32% a week ago.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2305
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5275
Venezuelan bolivar	.2760

We sold $19,950,000 in gold to the Swiss National Bank and $3,000,000 in gold to the Bank of Venezuela. These amounts were added to the earmarked accounts of the banks named.

Following the gold sales mentioned above we replenished the Stabilization Fund's gold balance by purchasing $15,500,000 in gold from the General Fund through the New York Assay Office.

No new gold engagements were reported.

In London, spot and forward silver remained at 23-1/2d, equivalent to 46.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

BRITISH EMBASSY
WASHINGTON, D.C.

27th February, 1942.

PERSONAL AND SECRET

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 68

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

1. NAVAL

During air attacks on TANJONG PRIOK HARBOUR (JAVA) on 24th and 25th one of H.M. Ships was slightly damaged by near misses and another suffered some casualties. 22nd. A Dutch steamer (6,500 tons) and a small British steamer were sunk off TOBRUK. 24th. A Panamanian steamer (4,500 tons) struck a mine off NEW CALEDONIA and has been beached.

2. MILITARY

LIBYA. During night 23rd/24th a South African patrol inflicted 25 casualties on the enemy about 6 miles southeast of TMIMI without suffering any casualties. 25th. Sand storms hampered all operations.

BURMA. Further reports indicate that on 22nd February 48 Brigade reached the Bridgehead at MEKPALIN on the SITTANG RIVER whilst the remainder of the Division were 12 miles further east. Heavy attacks were made on the Bridgehead by one Japanese Division and some penetration was made. Another division attacked our troops further east. We, however, remained in control of the Bridgehead and throughout the night a number of troops from the forward area were passed through. At first light on 23rd the Bridgehead was abandoned and the bridge blown to avoid its falling into enemy hands. Some of the units left east of the river were known to be intact on 24th and it is hoped that parties will be able to fight their way out and cross the SITTANG by ferry further north.

3. AIR OPERATIONS

WESTERN FRONT. 25th. Our fighters damaged a dredger and a 1,000 ton merchant vessel at ZEEBRUGGE. 25th/26th. 104 aircraft were sent out. KIEL floating dock, 61; Chemical factories COLE area (NORWAY) 21; Sea-mining 19; Test flights PARIS/LILLE, 3; 3 of our aircraft are missing.

LIBYA. 23rd/24th. Wellingtons dropped 23 tons of bombs at MARTUBA and DERNA landing grounds which were illuminated by flares from naval Albacores. 2 Wellingtons are missing. 24th/25th. Wellingtons attacked shipping in TRIPOLI (I) HARBOUR, bursts being observed on Spanish Quay and at the base of the mole.

MALTA. 24th and night 24th/25th. Enemy aircraft bombed the island but caused no damage.

BURMA. 22nd and 23rd. Bombers attacked enemy positions in the MAIKTO and SITTANG areas whilst fighters destroyed an enemy fighter and a reconnaissance aircraft. 25th. Blenheims bombed and sank two river steamers loaded with Japanese troops in the SALWEEN ESTUARY.

UNITED STATES GOVERNMENT
COORDINATOR OF INFORMATION
WASHINGTON, D. C.

February 27, 1942

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

Dear Henry:

The attached is a summary taken from the British PWE weekly directive.

Sincerely,

Bill

William J. Donovan

Enclosure

Strategy:

a. Russia. Point out that the Russians are still holding the initiative and in various sectors are still attacking. Very costly German counter attacks have either failed or made inconsiderable local gains. In spite of great efforts, the Germans have still not been able to stabilize. The Russians confident that they can relieve Leningrad at an early date, have reinforced Sevastopol and Kerch and continue to attack on the central sector. There is no information as to whether the pincer west of Moscow has progressed.

b. Libya. Keep to straight news. For reasons not yet clear, Rommel has withdrawn his forces about fifteen miles instead of attacking positions running south of Gazala.

c. Far East. Before long the counter offensive will begin and will continue unremittingly with ever increasing forces. America and Britain, which have the greatest navies and limitless resources for their expansion will inevitably be victorious. Japan will lose her sea supremacy, her land forces, now dispersed on a perimeter of more than six thousand miles, will be cut off from Japan their only munitions supply base.

Special note:

a. The suggestion has been submitted to the Executive Committee that our propaganda should reply to the German presentation of the war as a worldwide struggle in which the Axis holds the strategic advantage because Japan has gained sea supremacy in the Pacific and is consequently prepared to strike over a very wide area in

any direction and because of the geographical position of their sea and land forces.

b. Although the committee fully appreciates the strategic possibilities of Japanese sea supremacy, they believe it would be a great blunder to conform to the strategic picture as the German propagandists paint it. When and if the Japanese impinge into the Western theatre by striking at our communications in the Persian Gulf and Red Sea, for example, we will be forced to admit that the balance of strategic advantage rests with enemy powers and that our position in the West is imperilled. This situation has not yet and may never arise. There is still a very fair chance that the British and American naval forces sent to the Far East will be able to create a major strategic diversion, particularly in view of the very wide dispersion of the Japanese forces. There is no question but that Japan will sooner or later lose her sea supremacy in the Pacific. Her whole war effort depends upon this supremacy. There is also a very fair chance that the Russians will gain further successes and that we will defeat Rommel in Libya. As the German armies will contain a large number of war weary troops, there is also a fair chance that the Russians will foil the impending German Spring offensive. Moreover the Russians have had time to enlist fresh forces.

Propaganda policy.

a. We shall come through the 1941-42 crisis as we did that of the summer of 1940 and as we survived the two great crises of the last war in 1914-15 and winter and spring of 1917-18.

b. If viewed in this light, the recent changes in the government provide the answer to the inquisitive interest in our domestic affairs which the enemy has been manifesting. The British grasp that the situation is tightening rather than slackening. The public is alive to the coming German Spring offensive and is solely animated by a desire to meet and overcome it. It has complete confidence that this can be done, knowing the immense strain the Russian campaign has put up on Germany.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Intelligence Reports

Germany

For the last two months, there has been an extensive "combing-out" of laborers for the armed forces. Men on leave have been sent back to the Russian front: This would indicate that the Germans have been forced to use some of the reserves they were saving for the spring offensive. German over-all production has probably decreased due to the heavy mobilization for the army. War production, however, may have increased by civilian consumption being cut drastically.

(C.O.I., Cable, Excerpts from U.K. Ministry of Economic Warfare Weekly Digest, February 26, 1942)

Conditions in Europe

Towards the end of January, the critical food shortage in France caused anti-Vichy demonstrations in several towns in the unoccupied zone.

In Italy, the peasants are reluctant to deliver their crops. Difficulties in providing rations in the urban areas are therefore resulting. In certain factories, the workers have succeeded in getting increases in rations by striking.

(C.O.I., Cable, Excerpts from U.K. Ministry of Economic Warfare Weekly Digest, February 26, 1942)

Description of the Average German Radio Listener

(The following description of the average radio listener in Germany is stated by C.O.I. to be based on material gathered over a period of more than a year.)

The problems of day-to-day existence keep the average German radio listener overwhelmingly absorbed. He has no interest in ideologies. He has a personal respect for Hitler and, on the whole, has faith in the regime.

He is less certain than he was six months ago that Germany will win, but does not often think Germany will lose. He has forebodings if he is over forty, and about one-half of the German audience is, because he remembers America's part in the last war.

He fears most: occupation of Germany by Russia. He has lost someone or may lose someone in Russia; or he knows of those who have. He is appalled by the horrors of the Eastern Front.

Rather than fight to the death for the break-up of the British Empire, he would far rather prefer an honorable and negotiated peace with Britain now.

He is disillusioned and cynical, rather than bitter.

(This description is undoubtedly based on British sources. It partly sounds as though it were not so much a picture of the average German listener as he is, but as the Nazis want the British to think he is. Note, for example, the Munich note struck of fear of Russia and desire for "an honorable and negotiated peace with Britain.")

RESTRICTED

MID 319.1 No. 643 MID, W.D. 11:00 A.M., February 27, 1942.
Situation 8-11-41

SITUATION REPORT

I. Pacific Theater.

Philippines: On the Bataan Peninsula the enemy has withdrawn to fixed positions one to eight kilometers from the scene of recent fighting. Our forces have driven in the enemy screen and the enemy reacted on the left with light artillery fire. On the right, our patrols continue to push forward with sharp encounters at several points. For the present, the enemy appears to have given up the attack. Burma: No ground or air activity to report. Australasia: Australian bombers struck again at Rabaul, dive bombing Japanese ships, airdromes and military reservations. Big fires were observed. United Nations airplanes attacked Japanese-held points in Sumatra, and Japanese shipping.

II. Western Theater.

British raiders attacked the Nazi Naval Base at Kiel for the second night in succession. Air Ministry reports that big fires were started among dockyards and shipbuilding works. Three British planes failed to return.

III. Eastern Theater.

Hard fighting continues with the Russians claiming further successes at Staraya Russa. German High Command claims to have repulsed Russian attacks at Sevastopol and in Kerch peninsula. (A situation map will not be issued this date.)

IV. Middle Eastern Theater.

Ground and air situationsin North Africa remain unchanged.

RESTRICTED

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United States Senate

COMMITTEE ON APPROPRIATIONS

February 28, 1948.

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

My dear Mr. Secretary:

Responding to yours of February 27th, I shall bring the letter to the attention of the Appropriations Committee on Monday when the committee again takes up the Treasury appropriations bill and have it entered of record.

With cordial regards,

Sincerely yours,

Carter Glass.

CG/H.

My dear Mr. Chairman:

Under Secretary Bell has informed me of the hearing before your committee with reference to the item of $250,000 submitted to the Congress by the President to carry into effect Executive Order No. 8512.

There are one or two points which Mr. Bell feels were not adequately covered in his testimony and which I would like to emphasize.

I understand that the Under Secretary explained to the committee some of the difficulties under which the Treasury financed the first World War and the problems which are facing the Treasury Department now and will continue for some time to come. I concur completely with Mr. Bell's statements in this connection and I cannot urge too strongly the serious consideration which should be given to the practical aspects of a very serious problem.

First, let me set at rest once and for all that the Treasury Department does not seek to do any other agency's work. Nor does it seek any glory which may belong to any other department or agency. It seeks only the tools with which to do its daily work.

Like the General Accounting Office, the Treasury Department is a creature of the Congress. It carries on the functions imposed upon it by the Congress and is required by law to make an annual report on the state of the finances. Like the General Accounting Office the Treasury Department makes its report to the Congress. It, also, is independent of the other executive departments.

Neither by letter nor by implication do the provisions of Executive Order No. 8512 impinge upon the authority vested in the Comptroller General by Section 3 of the Budget and Accounting Act. The order merely provides for a system of reporting — not accounting — under which executive agencies, including corporations, shall furnish information for the use of the President, the Treasury Department, and the Bureau of the Budget, in conducting the financial affairs of the Government. When it is found that information needed under Executive Order No. 8512 is not

readily available in the accounting records the matter is reported to representatives of the General Accounting Office for consideration. In this connection there are for consideration two further facts: first, that information will be needed from sources outside the books of account, and secondly, from corporations and agencies not subject to lawful jurisdiction of the General Accounting Office.

I have noticed in reading the debate on this item in the House of Representatives that a great deal of emphasis was placed upon the authority of the Comptroller General under the Budget and Accounting Act and it was stated that the provisions of the executive order conflict with that authority. In this debate no mention was made of the authority of the President of the United States nor of the responsibilities imposed upon him by the Congress in the Budget and Accounting Act. Neither was any reference made to other provisions of law relating to the accounts and reports of the Government.

The impression was given -- entirely erroneous -- that there was being foisted upon the Government a new organization; that it would duplicate the work of the General Accounting Office; that the information needed is now available in the General Accounting Office or could be compiled there with no or little additional expense; and all that is necessary is for the President to issue an order compelling the departments to maintain the uniform accounting system prescribed by the General Accounting Office. May I say in all frankness and without fear of successful contradiction that none of these suppositions is founded on fact, as a close analysis of the situation would prove.

Another important point which was not mentioned in the debates in the House of Representatives on this item and which apparently was overlooked by Senator McKellar in his reference to Section 3 of Executive Order No. 8512 and in his reference to the testimony of the Commissioner of Accounts before the House Appropriations Committee is the fact that the Treasury Department, by act of Congress, now maintains the central accounts of the Government relating to the receipts, appropriations, and expenditures of all departments and establishments. This law will be found in Title 5 of the United States Code, Section 265.

It may be recalled that when the Budget and Accounting law was under consideration in 1919, 1920 and 1921 one of the proposals was to transfer this function to the General Accounting Office. After careful consideration, Congress determined that the bookkeeping and auditing functions should be kept separate and the duty of keeping the general accounts of the Government was left by the Congress in the Treasury Department. At the same time the

Congress left in the Treasury Department the duty of making an annual report of the receipts and expenditures of the Government. Contrary to some understanding the Congress did not direct the General Accounting Office to make an annual report on the finances of the Government.

The action thus taken by the Congress in 1921 was not only sound in principle but is in complete harmony with the intent of Congress as expressed in the title of the Budget and Accounting Act, namely, to provide an independent audit of the public accounts. It is also in recognition of the fact that the current financial transactions of the Government center in the financial department of the Government and that accounts are inseparably interwoven with the work of superintending the revenue, managing the public debt, and administering the depositary system. It seems perfectly idle to contend that any system of financial administration could be successful or even remotely effective if, as has been suggested, the financial department of the Government should be compelled to look to the auditing agency for financial information needed to do its work, most of which already is within the confines of its own walls.

Before closing I would like to say a word or two about Governmental Corporations. As I informed the Senate in my letter of February 10, 1940, in response to Senate Resolution 150, a number of accounting systems are not under the jurisdiction of the General Accounting Office. Nevertheless, their financial operations are of vital concern to the financing work of the Treasury Department and, accordingly, were brought within the purview of Executive Order No. 8512. Furthermore, in view of the Government's guarantee of their obligations, the assets and liabilities of such agencies are of concern in the reporting of the financial condition of the Government as is required of the President by Section 201 of the Budget and Accounting Act.

The distinction between accounting and financial reporting was recognized by the Senate when it called upon the Secretary of the Treasury in 1935 to make a report of operations under the $3,300,000,000 appropriation for national recovery and public works (Senate Doc. 40, 74th Congress, 1st session); and again in connection with the financial statements of Governmental Corporations under Senate Resolution 150 (76th Congress, 1st session) and Senate Resolution 292 (76th Congress, 3d session), the report under Senate Resolution 150 having been printed in two parts as Senate Document 172 (76th Congress, 3d session). In this connection it may also be of interest to note that on May 1, 1941, Senator Byrd introduced Senate Resolution No. 73 calling on the Secretary of the Treasury to compile similar reports

of financial operations and condition every year but it is understood that action on this resolution has been held in abeyance because it is felt that the reports to be prepared under Executive Order No. 8512 would fulfill the need.

For the convenience of your committee in the consideration of this matter I have asked Under Secretary Bell to prepare a memorandum giving a chronological history relating to the financial reports of the Government, a copy of which I am enclosing herewith.

In closing, Mr. Chairman, I would like to allude, if I may, to some of the difficulties which you found in administering the affairs of the United States Treasury back in 1919 with inadequate financial information. In your testimony as Secretary of the Treasury before the Select Budget Committee you remarked about the "intolerable conditions" under which the Secretary of the Treasury was required to finance the great war. You mentioned the fact that the Secretary of the Treasury had to be guided not by information furnished by the departments but by his own "shrewd guess as a result of putting together an infinite number of little facts and figures." You very aptly pointed out that "in the management of the Nation's finances the Secretary of the Treasury must have an effective system of accounting and bookkeeping." It was undoubtedly through your advice that the Congress rejected the proposal to strip the Treasury of one of its most important tools of management.

Very sincerely yours,

Secretary of the Treasury

Enclosure

Honorable Carter Glass,
Chairman, Committee on Appropriations,
United States Senate.

HFB:mlm 2/27/42

MEMORANDUM RELATING TO THE
REPORTING OF FINANCIAL INFORMATION

1916: Prior to the first World War (fiscal year 1916) the revenues and expenditures of the United States Government amounted to less than a billion dollars a year. The public debt was only $1,282,000,000 and the financing of governmental activities was relatively simple in comparison with present-day problems. The only available data with reference to the receipts and expenditures of the Government were those contained in the Daily Statements of the United States Treasury, but such expenditures were classified only under general categories. They were not broken down by departments and agencies.

1917: The Treasury struggled through the World War with inadequate financial information. It had virtually no current information with respect to obligations and commitments on war contracts. The only classified data available to the Treasury were based upon advances of funds to disbursing officers. These advances were made on warrants issued by the Secretary of the Treasury. They authorized the Treasurer of the United States to place credits in checking accounts of disbursing officers. Before the World War the balances in these checking accounts averaged about 60 millions of dollars. On account of the enormously increased expenditures of the war period, which gradually increased until they reached over 2 billion dollars a month, the balances of disbursing officers averaged over 2 billions of dollars for a long period of time.

The Treasury had no way of determining the reasonableness of requisitions for advances of funds to disbursing officers, and the information was of little value to the Treasury in financing the war.

1919: Because of inadequate financial information regarding obligations and commitments, the Treasury borrowed in 1919 more than a billion dollars in excess of its requirements because there was not at that time a proper liaison and a proper reporting system in effect. Consequently, the Treasury paid more interest than would have been necessary had there been available adequate financial information.

1920: Between November 30, 1918, and June 30, 1921, disbursing officers of the War, Navy, and other departments returned to the Treasury over $1,230,000,000 of unexpended disbursing balances. Under the procedure then in vogue, the repayments of these balances were reflected as reductions in expenditures, when, as a matter of fact, they represented merely the return of disbursing credits from disbursing officers' checking accounts to appropriation accounts. This situation was corrected in 1920. The Treasury Department is now attempting to compile a monthly classification of expenditures during the fiscal

years 1917, 1918 and 1919. Classified expenditures prior to the fiscal year 1920 are not now available except upon the basis of warrants issued by the Secretary of the Treasury.

1921: On June 10, 1921, Congress passed the Budget and Accounting Act, directing the President of the United States to include in the Budget "such financial statements and data as in his opinion are necessary or desirable in order to make known in all practicable detail the financial condition of the Government" (U. S. Code, Title 31, Sec. 11). Pursuant to the Budget and Accounting Act, President Harding issued Executive Order No. 3578, directing the Secretary of the Treasury to furnish the Bureau of the Budget financial information for inclusion in the Budget.

1927: In 1927, because of the limitations of expenditure data, the Secretary of the Treasury requested the heads of various departments and establishments to make reports to the Treasury Department as at the end of each fiscal year, showing the amount of unexpended balances in the hands of, or to the credit of, disbursing officers under each separate head of appropriation. The purpose of this change is fully explained in the annual report of the Secretary of the Treasury for the fiscal year ended June 30. This enabled the Treasury Department for the first time, in the fiscal year 1927, to have classified, detailed information with respect to expenditures (checks-issued basis) under appropriation heads. On May 1, 1931, President Hoover issued Executive Order No. 5614, pursuant to the Budget and Accounting Act, making this procedure permanent.

1933: On March 20, 1933, Congress passed the Economy Act (Public No. 2, 73d Congress), with a view to reducing governmental expenditures. By the time information as to the status of appropriations was received it was so out-of date that it was of little value in determining where and what reductions in expenditures could be made under different categories. Moreover, the practices of the various departments with respect to the encumbrance of their appropriations varied so greatly that it was virtually impossible to determine where the reductions could be made with least harm to the public service. Because of this situation, there was applied with certain exceptions such as interest on the public debt, a straight 10% reduction in cash expenditures. With a view to bringing about better administrative control over expenditures, President Roosevelt issued Executive Order No. 6166 on June 10, 1933, pursuant to Reorganization Act of March 3, 1933, vesting authority in the Director of the Budget to apportion the appropriations of the several departments and establishments. On July 27, 1933, President Roosevelt issued another Executive Order, No. 6226, providing for monthly reports of obligations. An attempt was made to standardize financial information

under this order but no provision was made for staffing the Treasury in order to bring about uniform applications of the standards. Consequently, there grew up a great lack of uniformity in the reporting of financial information. (Note: Executive Order No. 8512 of August 13, 1940, is designed to correct this condition.)

1934: On October 10, 1934, President Roosevelt issued Executive Order No. 6869, directing the various governmental corporations to make monthly reports to the Secretary of the Treasury regarding their financial condition. These statements have been published regularly since that time once a month in the Daily Statement of the United States Treasury.

1935: On March 4, 1935, the Senate passed a resolution (S. Res. 91) introduced by Senator Byrd, calling on the Secretary of the Treasury for financial information concerning allocations and expenditures on account of various projects authorized under the appropriation of $3,300,000,000 authorized in the National Industrial Recovery Act. The Treasury had great difficulty in complying with the provisions of this resolution because the procedures of the various agencies were not properly geared to furnish the information on a uniform basis.

Shortly thereafter, on April 8, 1935, Congress passed the Emergency Relief Appropriation Act (Public Resolution No. 11, 74th Congress) making an appropriation of not to exceed $4,800,000,000 for relief and work relief. Because of the difficulties of obtaining current information with respect to the previous public works program, the President issued an executive order on May 6, 1935, No. 7034, directing the Treasury Department to maintain a system of accounts and financial reports. Under this system, for the first time in history, information as to the true status of the funds was available every ten days. The President, the Secretary of the Treasury, and the Director of the Bureau of the Budget were informed every ten days, not only as to cash expenditures, but also as to the accruing liabilities of the Government.

1939: On June 27, 1939, the Senate passed Resolution 150, (76th Congress, 1st Session) calling on the Secretary of the Treasury to make a report to the Senate on the financial operations and condition of each corporation from its inception to and including June 30, 1939. This is a voluminous report and was printed as Senate Document 172, 76th Congress, 3d Session, pursuant to Senate Resolution 247.

1940: On July 22, 1940, Senate Resolution 292 was adopted (76th Congress, 3d Session) requiring that the data reported under Senate Resolution 150 be brought down to date, as of June 30, 1940. This report was not printed.

On August 13, 1940, President Roosevelt issued Executive Order No. 8512, requiring the Secretary of the Treasury to compile financial reports in accordance with uniform standards to be established by the Secretary of the Treasury and approved by the Director of the Bureau of the Budget.

1941: On May 1, 1941, Senator Byrd introduced in the Senate Resolution No. 73 (77th Congress, 1st Session) calling on the Secretary of the Treasury to make reports of financial condition of certain agencies and corporations of the Government similar to those transmitted to the Senate pursuant to Senate Resolution 150 and Senate Resolution 292. In addition to the specified information called for in the Resolution, Section 3 provided that "the Secretary of the Treasury is further authorized to require such additional data from such agencies and corporations to be included in such financial statements as he may deem necessary or desirable in the public interest. Such financial statements shall, upon request, be made available to any Member of Congress or any committee thereof." Action on this resolution has been held in abeyance in view of the fact that Executive Order 8512 will fulfill the need.

SUMMATION

The Treasury makes daily, monthly, and annual financial statements relating to the financial operations of the Government.

Daily Statements:

The daily statement is officially known as the "Daily Statement of the United States Treasury." It is published by the Treasury Department for each working day of the year and is released to members of Congress and the general public on the second day after the date of issue. This statement is a cash statement based upon the daily transcripts of accounts which are received from Federal reserve banks and other Government depositaries. The first page shows the current assets and liabilities in the Treasurer's account and also the cash receipts and expenditures for the day. The second page is a comparative analysis of actual receipts and expenditures for the current month and fiscal year to date and corresponding periods of the previous year. It contains about a dozen general classifications of receipts and approximately 40 general classifications of expenditures. The difference between the current receipts and the current expenditures, as exhibited in this statement, is commonly referred to as the current budget deficit. Page 3 of the statement contains a comparative analysis of receipts and expenditures in trust accounts and public debt accounts.

Monthly Statements:

A number of monthly statements are prepared by the Treasury. These monthly statements are embodied in (1) the Treasury Bulletin, and (2) the Daily Treasury Statement mentioned above. The issue of the Daily Treasury Statement for the 15th of each month contains a comparative monthly analysis showing receipts and expenditures in considerable detail. It contains a special statement showing the financial status of the emergency work-relief program on a cumulative basis. This latter statement shows by organization units, i.e., operating agencies: (a) available funds, i.e., appropriations made by Congress; (b) obligations; (c) expenditures on basis of checks issued; (d) unliquidated obligations; and (e) unobligated balances at the end of the period. The Daily Treasury Statement for the 15th of each month also contains a monthly analysis of the operations under the Social Security, Railroad Retirement, and Railroad Unemployment Insurance Acts, reflecting also the cumulative totals for the current year and previous years.

The statement of the last day of the month contains a preliminary statement of the public debt on the basis of the public debt transactions reported in the Daily Treasury Statements from day to day. It also contains a combined statement of assets and liabilities of Governmental corporations and credit agencies of the United States as of the close of the preceding month. This latter statement is not based upon the accounts of the Treasury but is compiled from reports submitted by the various corporations and agencies pursuant to an Executive Order issued by the President on October 10, 1934.

The monthly Treasury Bulletin is a document consisting of approximately 85 pages and contains a summary of fiscal statistics and information concerning receipts and expenditures, general fund of the Treasury, Government securities outstanding, ownership of Government securities, prices and yields of Government securities, governmental corporations and credit agencies of the United States, internal revenue statistics, customs statistics, capital movements between the United States and foreign governments, gold and silver statistics, and other Treasury statistics.

Annual Reports:

There are three annual reports relating to the financial operations of the Government as a whole:

(1) Annual Report of the Secretary of the Treasury on the State of the Finances;

(2) Annual Combined Statement of Receipts, Expenditures, Balances, etc., of the United States, and

(3) The Annual Budget.

The Annual Report of the Secretary of the Treasury contains the most comprehensive information relating to the finances of the Government. Its contents include the following subjects: Budget results, public debt, taxation, economic trends, trust funds administered by the Treasury, condition of the general fund, securities owned by the United States, securities guaranteed by the United States, monetary developments, financial legislation, and administrative activities of the various fiscal services of the Treasury.

The Annual Combined Statement of Receipts, Expenditures, Balances, etc., of the United States is a report consisting of approximately 600 pages. It is transmitted to the Congress pursuant to the Act of July 31, 1894, which provides that the Secretary of the Treasury shall annually lay before Congress at the beginning of each regular session an accurate combined statement of the receipts and expenditures of the Government, designating the amount of the receipts, whenever practicable, by states, districts, and ports of collection, and the expenditures by each separate head of appropriation. This report is virtually an abstract of the ledger accounts of the Division of Bookkeeping and Warrants and consists almost entirely of figures without comment or interpretation other than certain explanatory footnotes. It shows with respect to each appropriation the following information:

(1) Unexpended balances at beginning of year
  a. On books of Treasury
  b. To credit of disbursing officers

(2) Appropriations (set up during year)

(3) Expenditures
  a. Warrants issued basis
  b. Checks issued basis

(4) Amounts carried to surplus fund, Act June 20, 1874

(5) Unexpended balances at end of year
  a. On books of Treasury
  b. To credit of disbursing officers

The Annual Budget is a document consisting of over a thousand pages prepared by the Bureau of the Budget for transmission by the President to the Congress at the beginning of each regular session. The Budget for 1943 consists of eight chapters, as follows:

I. Budget Message of the President
II. Budget Statements
III. Detailed Comparative Statement of Receipts
IV. Detailed Comparative Statement of Appropriations and Expenditures

V. Detailed Comparative Statement of Receipts, and Appropriations and Expenditures
VI. Estimates of Appropriations in Detail
VII. Annexed Budgets
VIII. Informational Tables

The actual figures in Chapters II to V, relating to receipts, expenditures, condition of the Treasury, and the public debt, are taken largely from figures included in the Daily Statement of the United States Treasury and the Treasury's Annual Combined Statement of Receipts, Expenditures, Balances, Etc.

One of the principal statements in the part of the Budget is entitled "Estimates of Appropriations and Expenditures" and consists of about 70 pages showing with respect to each appropriation item, in parallel columns, the following information:

Estimates of appropriations (ensuing year)
Appropriations:
  Current year
  Previous year
Expenditures:
  Estimated (ensuing year)
  Estimated (current year)
  Actual (previous year)

The detailed estimates of appropriations and supporting schedules in Chapter VI are based upon data submitted by the various administrative agencies. In this chapter appears the text of each appropriation item supported by a schedule of expenditures.

EFB:mlm
2/27/42

5025 Waldo Avenue
Riverdale, N. Y.
February 28, 1942

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

My dear Mr. Morgenthau:

It has touched me deeply to hear of your interest and kindness in helping me to obtain a reenter permit.

Ever since I have come to this country I have had an increasing sense of gratitude for everything it has offered me, but it is an especial happiness to feel now the almost unbelievable personal interest and consideration which you have shown in aiding me to secure my reenter permit.

I am looking forward to again having the opportunity to sing for you on March 21st, and please call on me at any time during the summer months. I will always be happy to prove myself a faithful servant of this glorious country.

With kindest regards, I am

Sincerely yours,

Lotte Lehmann

LOTTE LEHMANN

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1942

TO Secretary Morgenthau

FROM George Buffington GB.

The purposes of my visit to Chicago were:

1. To secure a general impression regarding the progress of the Payroll Savings Plan.

2. To determine what mechanism is employed to accelerate the percentage of weekly or monthly dollar payroll allotment.

3. To see what method is being employed for follow-up.

4. To determine general methods of procedure.

I visited with the following members of the Cook County Defense Savings Staff (Mr. Norman Collins, State Administrator, was absent from the city):

Max Epstein) Members of
R. P. Sherer) Executive Committee

J. G. Gallaher, Deputy Administrator, City of Chicago

E. R. Seese, Co-Chairman

E. B. Smith, Deputy Administrator, Payroll Allotment Division

I talked on Thursday and Friday with officers and employees of the following corporations, selected by me, all of which have undertaken the Payroll Savings Plan:

1. Scholl Manufacturing Company
2. Stewart Warner Corporation
3. Mills Novelty Company
4. Western Electric Company
5. Continental Illinois National Bank & Trust Co.
6. First National Bank of Chicago
7. Joseph T. Ryerson & Sons
8. General American Tank Car Corporation
9. International Harvester Company
10. Dole Valve Company

Attached as EXHIBIT A is a brief summary of the findings of my visit with each of the aforementioned corporations.

OBSERVATIONS

Employee participation ranged from 20% to 100%.

Weekly or monthly dollar payroll deduction varies from 3% to 10%.

In most instances the plan has been in operation a comparatively short time.

Without exception, both employer and employee reaction is extremely favorable to the Payroll Savings Plan.

Sale of the plan has been stimulated largely by a local insurance underwriter group with the cooperation of labor organizations in certain instances.

Acceptance of the plan by both employers and employees, as I understand it, has been entirely on a volunteer basis.

COMMENTS AND RECOMMENDATIONS

From my conversation with the aforementioned corporations, it is my impression that the results obtained to date in the Chicago area are satisfactory but complete records of detailed performance are lacking. A recording system is being installed to provide an accurate follow-up system. (EXHIBIT B)

To date there appears to have been no effort to establish standards of percentage payroll deductions among corporations similarly situated. As I understand it, it is contemplated to lift this percentage at a later date. From my observation, this plan has resulted in one corporation checking with another about a proposed percentage of deduction and the result has been to possibly lower the percentage.

All corporations with whom I talked indicated that employees would continue the plan, in certain instances increasing their percentage of deduction, unless, of course, there should be a deduction of taxes at the source in the future.

Several corporations stress the importance of a well designed advertising campaign beginning March 15, using posters and literature to stimulate continuing interest.

Mr. Edward Brown, President of the First National Bank, believes that in some instances the installation of the Payroll Savings Plan has been slowed down by the efforts of the Federal Reserve bank to have certain corporations act as issuing agents, instead of acting for them. In instances, he believes corporations are reluctant to act as issuing agents because of the added clerical expense involved. I discussed this matter with the Chicago Federal Reserve Bank and am attaching hereto a memorandum covering this subject. (EXHIBIT C) Mr. A. T. Sihler believes that an effort should be made, wherever possible to have corporations act as issuing agents in order to relieve the Federal Reserve bank from maintaining an organization to meet peak requirements.

State administrators should be held responsible for keeping accurate records of progress within their territory, in order to time accurately the need for advertising and other sales promotion effort. The state administrator should keep Washington accurately posted on progress within his territory.

I gained the impression from several corporation officials that they were slow to report results to Washington because they are waiting until employee participation has reached top figures.

It might be possible to attain higher dollar percentage of payroll deductions if "E" flag is awarded not only on 100% employee participation but based upon some standard of percentage of deduction.

Attached, as EXHIBIT D, is an estimate furnished me by E. R. Seese, Co-Chairman of the Payroll Allotment Division, showing results through February 21, with the projection of the plan to June 1, 1942. His estimates appear to be somewhat optimistic.

EXHIBIT A

PAYROLL ALLOTMENT PLAN

Name of Corporation	No. of Employees	Weekly Deductions	Deduction Percentage	Enrollment	Remarks
Scholl Mfg. Co.	500	$ 3,000	10%	100%	Employees have subscribed for $145,000 par value
Stewart Warner	8,500	average $2.00 (male) 1.25 (female)	5% to 7%	98%	Employees enthusiastic
Mills Novelty Co.	2,000	$ 3,400	--	100%	Plan in effect approx. 2 wks.
Western Electric Co.	20,000 (Chicago plant)	$ 101,000 (in February)	3%	2,776 (Dec.1) 8,743 (Feb.27)	Have extensive plan in contemplation
Continental Bank	2,000	--	3½%	95%	% should be higher
First Nat'l Bank	2,600	--	7%	99%	Satisfactory performance
Ryerson & Sons	2,200	--	5% to 7% expected at all plants	--	Plan just getting in operation
Gen'l Am. Tank Car	5,000	--	10% estimated	99%	Plan in effect 4 weeks
Internat'l Harvester	60,000	(Sending detailed figures)		99%	Excellent Performance
Dole Valve Co.	500	--	--	--	Plan not yet in effect. Employees asked plan be installed.

EXHIBIT B

PAYROLL SAVINGS PLAN

TREASURY NO. _____

MIN. ALLOT. _____

LOYER _____

ESS _____ TEL. NO. _____

KESS _____ ISSUING AGENT _____

CIAL IN CHARGE OF PLAN _____

(NAME) (TITLE)

CONTACT MAN:

_____ TEL. NO. _____

_____ TEL. NO. _____

_____ TEL. NO. _____

_____ TEL. NO. _____

CAPTAIN:

1. _____ TEL. NO. _____

2. _____ TEL. NO. _____

3. _____ TEL. NO. _____

4. _____ TEL. NO. _____

REMARKS:

FEDERAL RESERVE BANK
OF CHICAGO

EXHIBIT C

289

February 27, 1942

To: Mr. Buffington

From: A. T. Sihler

The following is a very sketchy outline of our conversation:

In the month of January all issuing agents in this district - numbering about 3,200 (exclusive of Post Offices but including the Federal Reserve Bank of Chicago and Detroit Branch) - issued 860,000 pieces of Series E bonds. From information received by us and from many contacts with issuing agents, this represented a capacity operation.

Based on estimates received from the five State Administrators in this district about three weeks ago, at least 4,000,000 employees will be signed up on payroll plans in this district during the next few months. At an average of five bonds per year (apparently a conservative estimate based on conversations with Treasury Department officials - contrasted with the American Federation of Labor estimate of 10 bonds per year per member), 20,000,000 bonds per year, or 165,000 per month, will be issued under the payroll plan in this district. Arbitrarily adding 200,000 pieces per month for other purchasers, this would bring the monthly output to 1,850,000 pieces.

With the present maximum capacity of 860,000 pieces per month, this would leave 1,000,000 pieces to be issued in either new issuing centers or entirely at the Federal Reserve Banks, Chicago and Detroit.

How will these 1,000,000 pieces be issued - and this figure may be too low?

If corporations with 800,000 employees on the payroll plan issue their own bonds, this would take care of 4,000,000 per year or about 350,000 per month (we now have nearly 200 corporations, with 800,000 employees, signed up as issuing agents - at 80 per cent this would be about 650,000 buyers).

This would leave about 650,000 pieces to be taken care of, presumably at the Federal Reserve Bank and Branch. Our January output of E bonds was 85,000 pieces, the issuing job alone requiring about 100 employees. If we are to handle 650,000, it would mean from 500 to 600 additional employees for this work alone, with the accompanying space and equipment problems.

EXHIBIT D

PAYROLL SAVINGS PLAN - COOK COUNTY, ILLINOIS

Round figure Estimate of E.R. Seese of Actual and Expected Results as of 2/21/42

Size of Firms	No. Firms Eligible	No. installed 2/19/42	No. Employees Eligible	No. of Firms in process of installation	Ultimate 6/1/42 Firms	Ultimate 6/1/42 Employees participating
500 or more employees	419	385 (91%)		25 (6%)	400	1,300,000
100 to 499 employees (Estd.Av.225)	2163	640 (30%)		825 (39%)	2000	450,000
	2582	1025 (40%)				
*25 to 99 employees (Estd.Av.60)	3000	200 (7%)		500 (16%)	2500	150,000
TOTAL	5582		1,151,627 (Of whom Estd. 800,000 are participating.)	1350 (70%)	4900	1,900,000

*Firms with 25 to 99 employees will be worked starting week of March 2. Results shown are voluntary installations.

Daily changes in the stock of Series E savings bonds on hand 1/

(In thousands of pieces)

	Number of pieces sold this day	Number of pieces manufactured this day	Stock on hand at close of day	IBM deliveries this day
Feb. 16	363	535	18,979	2,500
17	89	800	19,690	1,000
18	218	800	20,272	1,000
19	160	800	20,912	1,000
20	193	800	21,519	1,000
21	200	none-closed	21,319	-
22	none-closed	none-closed	21,319	-
23	214	800	21,905	-
24	55	800	22,650	1,600
25	104	800	23,346	700
26	158	800	23,988	875
27	240	800	24,548	660

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

February 28, 1942

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twenty-three Business Days of February and January 1942 and December 1941
(February 1-27, January 1-27, December 1-27)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
Series E - Post Offices	$ 84,361	$140,490	$ 86,301	-$ 56,129	$ 54,189	- 40.0%	62.8%
Series E - Banks	301,631	440,001	189,829	- 138,370	250,172	- 31.4	131.8
Series E - Total	385,992	580,492	276,130	- 194,500	304,362	- 33.5	110.2
Series F - Banks	50,310	65,634	26,455	- 15,324	39,179	- 23.3	148.1
Series G - Banks	244,819	261,655	129,429	- 16,836	132,226	- 6.4	102.2
Total	$681,121	$907,781	$432,014	-$226,660	$475,767	- 25.0%	110.1%

Office of the Secretary of the Treasury, Division of Research and Statistics. February 28, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS

Daily Sales - February 1942
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	$ 8,435	$ 34,150	$ 6,191	$ 19,795	$ 60,136	$ 42,585	$ 6,191	$ 19,795	$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
16	5,741	22,405	3,212	13,748	39,365	28,147	3,212	13,748	45,107
17	2,639	4,285	690	3,211	8,187	6,924	690	3,211	10,826
18	2,992	13,911	1,715	14,118	29,745	16,903	1,715	14,118	32,737
19	3,147	9,167	1,401	9,401	19,969	12,313	1,401	9,401	23,115
20	3,231	11,769	1,455	6,138	19,362	14,999	1,455	6,138	22,592
21	3,827	11,733	3,193	7,282	22,208	15,560	3,193	7,282	26,035
23	4,490	12,015	2,703	7,784	22,502	16,504	2,703	7,784	26,991
24	1,642	2,339	1,148	1,623	5,109	3,980	1,148	1,623	6,751
25	1,483	6,222	1,697	9,663	17,582	7,705	1,697	9,663	19,065
26	2,922	8,812	1,961	15,334	26,107	11,733	1,961	15,334	29,028
27	3,376	14,334	1,587	9,357	25,278	17,710	1,587	9,357	28,655
Total	$ 84,361	$301,631	$ 50,310	$244,819	$596,760	$385,992	$ 50,310	$244,819	$681,121

Office of the Secretary of the Treasury, Division of Research and Statistics. February 28, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1942

TO Mr. Thompson

FROM Mr. Hape

In further response to your request of December 26, 1941, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of December 1941.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each, for the month of December 1941

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 22, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on December 15. - Mr. Haas, Mr. Murphy, Mr. Foy, Mr. Barnett, Mr. Rosen

This review contained, in addition to analysis of the current situation, the following special study:

Effect of the war on prices of the two new bond issues. - Mr. Murphy, Mr. Foy, Mr. Barnett, Mr. Rosen

2. Two tables were prepared, on December 1 and December 3, showing on the basis of closing bid prices on December 1, and December 2, respectively, estimated yield bases and probable premiums on proposed new issues of Treasury bonds, for eight alternative maturities. - Mr. Sandelin, Mr. Conrad

3. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table was prepared summarizing this information. Similar comparative information for earlier periods was prepared in a weekly table. A chart for each issue was kept up to date showing daily price and yield figures together with comparative monthly data since 1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Leedy, Miss McCoy, Mr. Kroll

4. At the request of the Secretary, arrangements have been made to secure periodically from the British Empire purchasing missions certain information regarding purchases in the United States by the British Empire. Reports and tables are prepared from this information, and are transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr.Mayo

(a) Weekly statements are received from the British Purchasing Commission concerning the physical volume of airplane and airplane engine orders placed. This information is consolidated and coordinated in the Division, and a bi-weekly report, entitled, "British Empire Aircraft Statements" is prepared containing the following analytical tables, classified by company and by type of airplane or airplane engine: (1) current status of orders; (2) history of orders; (3) history of deliveries; (4) history of exports; (5) scheduled deliveries of unfilled orders; (6) options; (7) spare parts; and (8) secondhand units. These aircraft reports were prepared, and were transmitted on December 5, 6, and 20.

(b) The Division receives each week from the British Air Commission information concerning the disposition of airplanes and airplane engines inspected by the British Empire, and the status and location of airplanes and airplane engines on hand in the United States. These data are edited and reviewed in the Division, and a weekly report, entitled, "Disposition and Status of Airplanes and Airplane Engines Inspected by the British Empire", is prepared containing the following analytical tables, classified by company and by type of airplanes and airplane engines: (1) disposition of units inspected; (2) status of inspected units on hand; and (3) physical location of units awaiting export. These reports were prepared, and were transmitted on December 1, 9, 15, and 22.

(c) The Division also receives weekly statements from the British Purchasing Commission showing (1) the dollar volume of orders placed by British Empire Governments;and (2) the dollar volume of deliveries on orders placed by the United Kingdom through the various missions. The information in these statements is itemized by contracts and classified by twenty-five commodity groups.

These data are reviewed and edited in the Division, and a bi-weekly report, entitled, "British Empire Commodity Statements", is prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight analytical tables: The first three relate to orders placed during the current period by British Empire Governments; the next three consist of historical summaries of orders placed by the British Empire; the seventh and eighth relate to deliveries on orders placed by the United Kingdom through the British Purchasing Missions. These statements were prepared, and were transmitted on December 20.

(d) The Division receives each week from the British Purchasing Commission information relating to the dollar value of commitments by the British Empire for capital expenditures in the United States, and for extraordinary charges designed to expedite delivery. On the basis of the data submitted, a bi-weekly report, entitled, "British Empire Capital Statements", is prepared in the Division containing the following analytical tables, classified by commodity group and company: (1) tangible capital commitments to date; (2) tangible capital commitments during the current period; (3) commitments for extraordinary charges to date; (4) commitments for extraordinary charges during the current period; and (5) details concerning machine tools classified as capital. These statements were prepared, and were transmitted on December 20.

(e) Each month the Division receives a detailed report from the British Purchasing Commission concerning the activities of its Iron and Steel Division. On the basis of this information the Division prepares a report, entitled, "British Iron and Steel Statements", containing analytical tables showing on a physical volume basis: (1) current status of orders; (2) history of orders; (3) history of deliveries; (4) history of exports; (5) current status of orders of ferro-alloy and silicon metals; (6) current status of drop forgings orders; and (7) history of drop forgings orders. These statements are in preparation.

(f) The Division receives each month from the British Purchasing Commission information, on a physical volume basis, relating to the purchases of various other important commodities. These data are edited and consolidated in the Division and analyses of British Empire orders are prepared for the several commodities containing the following analytical tables: (1) current status of orders; (2) history of orders; (3) history of deliveries; and (4) scheduled deliveries of unfilled orders.

Statements for these various commodity groups were prepared, and were transmitted as follows:

Chemicals, December 15
Explosives and propellants, December 20
Guns, gun equipment, and instruments, December 9
Non-ferrous metals, December 20
Small arms ammunition, December 15

The statements relating to orders for airplane propellers, gun ammunition, marine equipment, motor vehicles, small arms, torpedoes, and aerial bombs, are in process of preparation.

(g) Each month the Division receives from the British Purchasing Commission a fiscal statement summarizing the financial status of orders placed by British purchasing missions, classified into twenty-five commodity groups. This information is edited in the Division, and a report, entitled, "Status of Payments on Dollar Orders Placed in the United States by the British Purchasing Missions", is prepared consisting of the following analytical tables: (1) status of payments; (2) history of payments; and (3) estimated schedule of future payments. This report was prepared, and was transmitted on December 9.

(h) Each month the Division receives from the Citadel Merchandising Company, Ltd., information relating to machine tool orders placed. Separate listings show by manufacturer, the orders, deliveries, and unfilled orders at the end of the month. These

data are edited and reviewed, and a report, entitled, "Analysis of Citadel Merchandising Company, Ltd. Machine Tool Orders", is prepared containing the following tables: (1) current status of orders; (2) history of orders; and (3) history of deliveries. This report is in preparation.

5. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and by Lindeteves, Inc. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. Mayo

Weekly statements are received showing the dollar volume of orders placed by the Netherlands Purchasing Commission and by Lindeteves, Inc., and the deliveries made thereon. These statements are itemized by contracts and are classified by the twenty-five commodity groups used for reporting orders placed by the British Empire.

These data are reviewed and edited in the Division, and bi-weekly reports are prepared for each of these agencies summarizing the information classified by commodity groups. These reports consist of three tables each, showing (1) history of orders; (2) history of deliveries; and (3) current delivery status of orders. These reports entitled, "Netherlands Purchasing Commission Commodity Statements" and "Lindeteves, Inc. Commodity Statements" were prepared, and were transmitted on December 5, 6, and 20, according to instructions by the Secretary.

6. In accordance with the request of the Secretary on July 8, three tables were prepared, and were transmitted to him on December 5, showing deliveries from July through November of airplanes, flying boats, and four-engine bombers. - Mr. Tickton

7. At the request of the Secretary on October 22, four charts were prepared, and were transmitted on December 12, showing lend-lease orders effected by the Procurement Division from May 1, 1941 to date. - Mr. Tickton

8. In response to a request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements were made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton Mr. D. J. Leahy, Mr. Blitman, Mrs. Barnes, Mr. Robbins

A summary was prepared of the data received as of October 31, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for December.

The information as of November 30, received from 7,000 banks and insurance companies was coded, tabulated, and analyzed. An analysis was prepared, consisting of 100 tables, showing this information, classified by type of institution, by issue, by geographic area, by call classes, and by tax-exemption provisions.

New letters were sent out to the banks and insurance companies on December 29, requesting comparable data as of December 31.

Special tabulations were prepared and were transmitted to the Federal Reserve Banks of New York and Philadelphia, covering ownership in the respective districts, as of October 31, and a tabulation was prepared, and was transmitted on December 16, to the Board of Governors of the Federal Reserve System showing, by classes of banks and by issues, the amount of Government securities owned on October 31, by the institutions covered in the survey.

9. At the request of the Secretary, arrangements have been made to prepare current statistical reports on the sales of United States Defense savings bonds, series E, F, and G, and Defense Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during December were transmitted according to instructions by Mr. Graves. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton, Mr. Kroll, Mr. D.J. Leahy

(a) Daily tables were prepared, showing the dollar volume, on the basis of the issue price, of sales of savings bonds, series E, F, and G, by Post Offices and by banks. The first table, prepared

on December 1, presented these data for each business day of November, with totals for the month. The next table, prepared on December 2, showed these data for December 1. Subsequent tables showed the data for the successive business days of December, with cumulative totals. The table prepared on December 31 covered the period from December 1 through December 30.

(b) Daily tables were prepared, containing a comparative statement of sales of bonds, series E, F, and G, in the three latest months, by Post Offices and by banks. The dollar volume of sales was shown on the basis of the issue price, together with the absolute and percentage changes in the latest month from the preceding month. The table prepared on December 1 contained these data for the full months of November, October, and September. The first table showing the comparison for December, November, and October, prepared on December 2, showed the data for the first business day of each month. Subsequent tables showed cumulative data for successive business days. The table prepared on December 31 covered the first 24 business days of each month.

(c) A table was prepared on December 2, showing sales of savings bonds, series E,F, and G, by Post Offices and by banks, in dollar volume, in each month from May through November.

(d) A table was prepared on December 11, showing sales of savings bonds, series E, F, and G, in dollar volume, by States, in the six-month period of May through October.

(e) A table was prepared on December 2, showing sales of savings bonds, series E, in dollar volume, by States, by months from May through October.

(f) A table was prepared on December 10, showing for savings bonds, series E, the estimated number of units sold, and percent of the dollar volume, by denomination, in each month from May through October.

(g) A table was prepared on December 29, showing for savings bonds, series E, the estimated number of units sold, in dollar volume, by Post Offices and by banks, by denomination, in each month from May through November.

(h) A table was prepared on December 11, showing for savings bonds, series E, the estimated number of new purchasers, in each month from May through November.

(i) A report consisting of 175 pages, was completed on December 26, showing sales of savings bonds, series E, for the month of November, in dollar volume, by Federal Reserve districts, by States, by cities, and by counties, classified by sales agents and denominations.

(j) A table was prepared on December 19, showing for savings bonds, series E, cumulative sales in December compared with November.

(k) A table was prepared on December 31, showing for savings bonds, series E, total sales by States, and by months from May through November.

(l) A table was prepared on December 26, showing for savings bonds, series E, the estimated number of units to be sold through May 1942, by denomination, and by months.

(m) A table was prepared on December 24, showing the estimated number of units of savings bonds, series E, required to produce two specified amounts per month.

(n) A table was prepared on December 11, showing for savings bonds, series F, the number of units sold, and percent of the dollar volume, by denomination, in each month from May through October.

(o) A table was prepared on December 11, showing for savings bonds, series G, the number of units sold, and percent of the dollar volume, by denomination, in each month from May through October.

(p) A table was prepared on December 29, showing for savings bonds, series F, the number of units sold, and percent of the dollar volume, by denomination, in each month from May through November.

(q) A table was prepared on December 30, showing for savings bonds, series G, the number of units sold, and percent of the dollar volume, by denomination, in each month from May through November.

(r) A table was prepared on December 11, showing the estimated total value and number of units of Defense Postal savings stamps, by denomination, sold in each month from May through November.

(s) A table was prepared on December 11, showing estimated dollar volume of Defense Postal savings stamps sold by States, in each month from May through November.

10. At the request of the Secretary on December 28, a series of tables were prepared, and were transmitted on December 29, showing the number of days' supply of series E savings bonds on hand, December 1 to date, and the number of pieces of bonds produced December 1 to date, classified by denomination. On December 30 and 31, memoranda and tables were prepared, and were transmitted showing, in addition to the above information, agents' requests for savings bonds unfilled at the close of business on those days. - Mr. Tickton

11. At the request of the Secretary on December 15, for reports on sales of series E savings bonds under the payroll savings plan, preliminary meetings were held with Mr. Graves concerning the mechanics of obtaining the information, and a telegram was prepared for Mr. Graves' signature on December 27, asking State administrators of the Defense Savings Staff to provide us with the basic information needed to undertake the project. - Mr. Tickton

12. A table was prepared, showing the relation of sales of United States savings bonds between December and November for the years 1935 through 1940. - Miss Lagos

15. A table was prepared, summarizing sales from August through November, of Treasury notes, Tax Series A and Tax Series B, in par amounts, by individuals and by corporations. The table was transmitted to the Secretary on December 15, and copies were given to Under Secretary Bell, to Mr. Buffington, and to Mr. Kilby. - Mr. Tickton

16. A table was prepared, showing sales from August through November, of Treasury notes, Tax Series A and Tax Series B, in par amounts, classified by denomination. The table was transmitted to the Secretary on December 15, and copies were given to Under Secretary Bell, to Mr. Buffington, and to Mr. Kilby. - Mr. Tickton

17. At the request of Under Secretary Bell on December 12, a memorandum was prepared, entitled "Should the Interest Rate on Series B Tax Notes Be Increased?" The memorandum was transmitted to the Secretary and to the Under Secretary on December 16. - Mr. Foy

18. Three proposals of the RFC that the Secretary request that corporation to purchase stock or debentures in three banks were examined. - Mr. Barnett, Mr. Rosen

19. At the request of the Secretary on December 11, a memorandum was prepared, and was transmitted to him on that date on inconsistencies in December 10 prices of Treasury bonds and notes as indicated by a computed market pattern. - Mr. Sass, Mr. Lindow, Mr. Tickton, Mr. Sandelin, Mr. Conrad

20. At the request of Under Secretary Bell, agenda, memorandum, and minutes are prepared in connection with the Treasury-Federal Reserve meeting held for the purpose of discussing financial policy. - Mr. Sass, Mr. Lindow

(a) Minutes were prepared of the meeting held on December 11 with respect to government bond market policy. - Mr. Lindow

(b) A revision was made of the memorandum on inconsistencies in December 10 prices of Treasury bonds and notes, as described in item 19, above. - Mr. Lindow

19. At the request of Under Secretary Bell on December 18, a memorandum was prepared on Government bond market policy. The memorandum, signed by Under Secretary Bell, Mr. Morris, and Mr. Haas, was transmitted to the Secretary on December 22, and copies were given to the Under Secretary and to Mr. Morris. - Mr. Haas, Mr. Murphy

20. At the request of Mr. Tarleau, certain information was transmitted concerning tax-exempt securities outstanding and published estimates of the revenue which would be obtained if such exemption were removed. This information, for use in replying to a letter from Mr. William N. Brenner to Assistant Secretary Sullivan, was transmitted in a memorandum to Mr. Tarleau on December 7. - Mr. Lindow

21. At the request of Mr. Broughton on November 25, a conversation was held with Mr. Herbert N. Fell, regarding his plan to stimulate the defense savings program through the introduction of a lottery element, as described in a memorandum dated November 28. Two memoranda were prepared outlining a proposal utilizing the lottery principle to promote the sale of savings bonds, series E. These were transmitted in a memorandum to Under Secretary Bell on December 9. - Mr. Reagh, Mr. Brown

22. At the request of Mr. E. M. Bernstein on December 4, a table was prepared, and was transmitted to him on that date, showing the comparative movement of excess reserves inside and outside of New York City. - Mr. Rosen, Mr. Barnett

23. At the request of Mr. Kuhn on December 23, a memorandum was prepared, and was transmitted to him on December 26, on income, expenditure, and revenue data. - Mr. Rosen, Miss Lagos

24. At the request of Mr. Broughton on December 12, a review was made of a draft of the Department Circular governing the offering on January 1, 1942, of two new Treasury notes, tax series. The draft was transmitted to Mr. Bartelt for further review on December 15. - Mr. Lindow

25. At the request of the Secretary on November 24, a letter was prepared, and was sent on December 6 to the heads of nine departments, bureaus, and agencies on the proposed Research Committee on Fiscal Policy. - Mr. Haas, Mr. Murphy

26. In response to a request from the Secretary, cooperation was given Mr. Morris in preparing a memorandum to the Secretary on December 31, on the borrowing problem of Mrs. Eva Cohen. - Mr. Foy

27. A table was prepared on December 5, on the assets of insurance companies, mutual savings banks, and Federal savings and loan associations, for transmittal to Mr. Theodore Goldsmith. - Mr. Barnett, Mr. Rosen

28. At the request of Mr. Kuhn on December 8, information was prepared for Fortune Magazine on (1) the amount of the Government's expenditure in the calendar year 1941 which was financed directly through the banks or by the banks, and (2) the formal deficit and the war cash deficit estimated as of June 30, 1942. The information was transmitted to Mr. Kuhn in a memorandum of December 9, addressed to Under Secretary Bell. - Mr. Tickton

29. A draft was prepared on December 22, for the President's Budget Message for the section on the increase in the Federal debt. - Mr. Murphy, Mr. Foy, Mr. Matlock, Mr. Barnett, Mr. Rosen

30. Material was assembled for use in the hearings before the House Subcommittee of the Committee on Appropriations on the Treasury Department Appropriation Bill for 1943. This included discussion of "Treasury financing and the Government bond market during past year." - Mr. Murphy, Mr. Tickton, Mr. Conrad, Mr. Barnett, Mr. Rosen, Miss Lagos

31. Testimony made in connection with the hearings before the House Subcommittee of the Committee on Appropriations on the Treasury Department Appropriation Bill for 1943, was reviewed and corrected on December 30. - Mr. Murphy, Mr. Foy

32. At the request of the Legal Division on December 20, a letter was prepared addressed to Senator George, commenting on S. 2124, a draft-capital bill introduced by Senator Lee. The letter was transmitted to Mr. Barnard on December 31. - Mr. Murphy, Mr. Sandelin

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Foy, Mr. Barnett, Mr. Rosen

2. A study is being made of the available sources of funds for Treasury financing. - Mr. Tickton

3. A memorandum is being prepared on a negotiable "tap" security. - Mr. Sandelin, Mr. Murphy

4. A study is being made of developments in the reserve position of the banks. - Mr. Murphy, Mr. Rosen, Mr. Barnett

5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. Three tables have been completed. - Mr. Conrad, Mr. Rosen

6. A memorandum is being prepared on the advantages and disadvantages of increasing the short-term debt. - Mr. Foy

7. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Lindow, Mr. Conrad

8. A memorandum is being prepared recommending legislation terminating miscellaneous types of tax exemption analagous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. - Mr. Foy

9. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Matlock

10. A study is being made of the market action of the various maturity classes of Government securities in relation to the type of holder. - Mr. Conrad

11. A memorandum is being prepared on the absorption of Government securities by life insurance companies and mutual savings banks. - Mr. Tickton, Mr. Robbins

12. At the request of Mr. Broughton on November 12, a review is being made of a memorandum suggesting a new type of tax anticipation notes, Series A, to be issued during 1942. - Mr. Reagh

13. At the request of Under Secretary Bell on December 5, a report is being made on the pro's and con's of the Treasury's taking over the Postal savings system from the Post Office Department. - Mr. Murphy

14. At the request of Mr. Blough on December 26, an estimate is being made of the increase in interest costs to the Federal Government, the States, and municipalities, if the tax-exempt privilege were removed from future bond issues. - Mr. Lindow, Mr. Conrad

15. At the request of Mr. Blough on December 26, tables are being prepared, showing the distribution of Federal, State, and local securities by classes of holders. - Mr. Conrad, Mr. Purvis

16. At the request of Under Secretary Bell on December 27, an analysis is being prepared for Mr. Rouse of the holdings of United States securities to be refunded January 15, 1942. - Mr. Lindow, Mr. Tickton, Mr. Leahy, Mrs. Barnes

17. At the request of Under Secretary Bell on December 31, a study is being made of a proposed special security for the purpose of absorbing idle business balances. - Mr. Haas, Mr. Murphy, Mr. Foy

18. A memorandum is being prepared on Mr. Viner's proposal for a new system of allotting Treasury bills. - Mr. Foy, Mr. Barnett

19. A memorandum is being prepared on the desirability of conducting the war finance as it was in the last World War, by the issuance of short-term securities. - Mr. Foy

20. At the request of Mr. Morris on December 16, an analysis is being made of a proposed industrial loan corporation bill of 1942. - Mr. Foy

21. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Foy

22. At the request of Under Secretary Bell on May 24, cooperation was given in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The information is for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. A proposed reply was sent to the Under Secretary on June 18. - Mr. Murphy, Mr. Foy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period December 1941-June 1942. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher

2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in November 1941 on the daily Treasury statement basis. - Mr. Delcher

3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in November 1941, based on the collections classification. - Mr. Delcher

4. Estimates of receipts for the fiscal years 1942 and 1943 were prepared for the Budget of the United States. - Mr. O'Donnell, Mr. Daggit, Mr. Leahey, Mr. Dambrun, Mr. Smith, Miss Spiegel, Mr. Chevraux, Mr. Saunders

5. A forecast was prepared of the monthly distribution of estimated revenue for the fiscal years 1942 and 1943, on the basis of the December Budget estimates. - Mr. O'Donnell, Mr. Dawkit, Mr. Leahey, Mr. Smith, Miss Spiegel, Mr. Chevraux, Mr. Saunders

6. At the request of the Division of Tax Research on November 25, a provisional estimate was prepared, and the results transmitted to Mr. Blough on December 11, of the number of persons and the amount of net income by net income classes that would be reported for tax purposes if there were no personal exemptions or credit for dependents for the calendar year 1941. - Mr. Smith

7. At the request of Mr. Paul on December 18, a tabular presentation was prepared of the net income of corporations with positive net incomes together with corporation income tax liabilities for the calendar years 1936 through 1942. The table was transmitted with a memorandum to Mr. Paul, and copies were given to Assistant Secretary Sullivan and to Mr. Blough on December 20. This table was later amended to include dividend data, and was transmitted to Mr. Paul, to Assistant Secretary Sullivan, and to Mr. Blough on December 22. - Mr. Leahey

8. At the request of the Division of Tax Research on December 23, estimates were prepared of the calendar year individual income tax liabilities, 1940 through 1942, and were transmitted in a memorandum to Mr. Blough on December 23. - Mr. Smith

9. At the request of the Division of Tax Research, an estimate was prepared of the individual income tax liabilities, by net income classes, for the calendar years 1940, 1941, and 1942, and was transmitted in a memorandum to Mr. Blough on December 22. - Mr. Smith

10. At the request of the Division of Tax Research on December 31, an estimate was prepared of the calendar year 1942 corporation surtax net income by net income classes, and was transmitted in a memorandum to Mr. Blough on that date. - Mr. Leahey

11. At the request of the Division of Tax Research on December 30, a comparison was made of our estimates with those submitted by the Office of Price Administration and the Federal Reserve Board covering the index of industrial production, national income, corporate profits and liabilities, and certain receipts. - Mr. Leahey

12. New seasonal trends for the monthly distribution of miscellaneous internal revenue (excluding capital stock, estate and gift taxes) were calculated for the taxes listed below. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Mr. Saunders

    (a) Telephone, telegraph, etc.

    (b) Local telephone bill

13. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, were prepared for use of Assistant Secretary Sullivan, and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun

    (a) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on December 11, of a supplementary tax of 15 percent on individual incomes, with deductions, exemptions, and credits as under the 1941 Act, assuming that: (1) the supplementary income tax is allowed as a deduction in computing the regular income tax; (2) the regular income tax is allowed as a deduction in computing the supplementary income tax; (3) the tax is imposed on surtax net income without any offset.

    (b) An estimate was prepared, and was transmitted in a memorandum to Assistant Secretary Sullivan on December 11, of the revenue effect if the corporation surtax were increased by 9 percent.

    (c) Estimates were prepared, and were transmitted in a memorandum to Assistant Secretary Sullivan on December 11, of the following proposed changes in the excise taxes: double rates on cigars, tobacco snuff; cigarettes, 1½ cents a pack; beer, $1 a barrel; soft drinks, 1 cent a bottle; and gasoline, 1½ cents a gallon.

(d) An analysis was prepared of the net income classes of $10,000 and over included in a previous estimate, of the yield of a supplementary tax of 15 percent on individual incomes with deductions, exemptions and credit as under the 1941 Act. This was transmitted in a memorandum to Mr. Blough on December 13.

(e) Estimates were prepared of (1) the calendar year 1942 tax liabilities, as estimated in October, under the individual income tax, subdivided into (a) liabilities for 4 percent normal tax and (b) liabilities for each rate bracket of surtax; (2) the distribution of the items as estimated in (1) for wages and salaries alone, assuming the tax is collected at the source on wages and salaries in excess of personal exemption and credit for dependents, an arbitrary allowance for deductions of 10 percent of exemption and credit, and, for the 4 percent normal tax, the earned income credit.. The estimates were transmitted in a memorandum to Mr. Blough on December 23.

(f) An estimate was prepared, assuming the present excess profits tax structure, of the increased rate of the corporation surtax necessary to produce $3 billions additional revenue from corporations. This estimate was transmitted in a memorandum to Mr. Blough on December 30.

(g) Estimates were prepared of the yield of 1 percent increases in the individual income normal and surtax rates, and were transmitted in a memorandum to Mr. Blough on December 30.

(h) An estimate was prepared of the revenue effect of an increase of $1 per gallon in the tax on distilled spirits, and was transmitted in a memorandum to Mr. Blough on December 31.

14. New studies were completed for revising and improving methods of estimating revenues from the taxes on the following: - Mr. Daggit, Miss Spiegel, Mr. Colclough, Mr. Saunders

(a) Fermented malt liquor

(b) Electric light bulbs

(c) Luggage

(d) Lubricating oil

(e) Electrical energy

(f) Jewelry

(g) Toilet preparations

(h) Telephone, telegraph, etc.

(i) Local telephone bill

(j) Transportation of persons

II. Projects or studies under way

1. An analysis is in preparation of each component of the September revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1941 and 1942. - Mr. Daggit, Miss Spiegel

2. At the request of the Division of Tax Research on December 26, a revenue estimate is being made of the effect of the removal of the tax-exemption privilege from Federal and State income taxes. - Mr. Leahey, Mr. Dambrun

3. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, are being prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun

(a) An estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type.

(b) An estimate is being made of the amount of additional revenue that would be obtained by repeal of Section 114(b) (3) and (4) of the Internal Revenue Code, providing for percentage depletions for oil and gas wells, coal and metal mines, and sulphur, under the following assumptions; (1) that no adjustment of the income credit under the excess-profits tax would be made with respect to depletion; (2) that the depletion deduction for the base period years under the income credit would be adjusted to correspond to the basis for depletion in the taxable year.

(c) Estimates are being prepared of the following:

The increase in revenue which would result if the corporation income tax were increased by 1 percent, and the additional revenue if the 1 percent increase were made applicable also to wholly and partially tax-exempt interest.

The increase in revenue which would result if the individual normal tax were increased by 1 percent, and the additional revenue which would result if this increase were made applicable also to wholly and partially tax-exempt interest.

The loss in Federal individual and corporation income tax revenue which would result from the exemption of interest on Government obligations, broken down to show separately the loss with respect to the exemption of State and local securities and Federal wholly and partially tax-exempt securities.

The increase in revenue which would result from:

Increasing the gasoline tax by 1½ cents per gallon.
Increasing the cigarette tax by 1½ cents per package, and double all other tobacco tax rates.
Increasing the rate on passenger automobiles to 30 percent.
Increasing the rates on automobile parts and accessories to 10 percent.

Increasing the rate on trucks to 10 percent.
Increasing the rate on distilled spirits to $6 per gallon.
Doubling the rates on tires and tubes.
Increasing the rate on refrigerators, refrigerating apparatus and air conditioners to 25 percent.
Increasing the rate on radio receiving sets, phonographs and musical instruments to 25 percent.
Increasing the rates on electrical, gas and oil appliances to 25 percent.
Increasing the rates on photographic apparatus to 25 percent.
Increasing the rates on business and store machines to 25 percent.
Increasing the rate on rubber articles to 25 percent.
Imposing a tax of 25 percent on domestic washing machines and domestic sewing machines.
Increasing the rates on telephone, telegraph, etc. messages imposed by Section 3465(3) from 6 percent to 15 percent.
Increasing the rate on transportation of persons to 10 percent.
Imposing a tax at the rate of 25 percent on metal furniture, furnishings and equipment, beauty and barbershop equipment, metal venetian blinds, metal bed springs, soda fountain equipment, beer dispensing equipment and related products.
Increasing the rate on lubricating oil to 10 cents per gallon.
Increasing the rate on firearms, shells and cartridges to 50 percent.
Expanding the present base of the tax on commercial washing machines to include dry cleaning and pressing machinery and equipment.
Imposing a tax on floor coverings (except cotton) and oil cloth at 25 percent rate.
Imposing a tax on ornamental metal work and fixtures, including metal doors, windows, fences, stairs, grills and railings, (except fire escapes) and metal plumbing and house fittings at 25 percent.

Expanding the present base of the cosmetics tax to include soaps and dentifrices.
Imposing a rate of 25 percent on furniture made of birch and mahogany.

(d) Estimates are being prepared, assuming the present excess-profits tax structure, in response to the following propositions:

If it is desired to raise an additional $3 billion from corporations, partly by the excess-profits tax and partly by the corporation surtax, what increases in rates would be required to raise (1) an additional $1 billion from the excess-profits tax and an additional $2 billion from the corporation surtax and (2) an additional $1½ billion from each, the excess-profits tax and the corporation surtax.

If income and excess-profits taxes were increased to take 100 percent of the excess of corporate profits over a specified percent of invested capital, what percent of invested capital would have to be specified to produce an additional $3 billion.

What would be the reduction in revenue under the individual income tax under the above proposals.

(e) Estimates are being prepared of the revenue effect of restoring the privilege of filing consolidated returns for purposes of the normal and surtax under the conditions stipulated in the acts prior to 1934 (1) assuming that the tax on intercorporate dividends is also eliminated; (2) assuming that the tax on intercorporate dividends is retained with respect to corporations other than those electing to file consolidated returns, and that the surtax rate for corporations electing to file consolidated returns is increased by a differential rate designed to raise from these corporations an amount of revenue equal to the tax on intercorporate dividends which the corporations in the affiliated groups would have paid under the normal and surtax had they filed separate returns.

Estimates are being prepared of the revenue effect of re-defining long-term capital gains and losses, substituting for the two classes, one class beginning at 18 months; taking into account 50 percent of net long-term capital gains and losses; increasing the alternative tax rate from 30 percent to 60 percent; allowing long-term capital losses to be deducted only against long-term capital gains, but allowing a carry-forward for five years to be offset against such capital gains in the future; taxing short-term capital gains as at present; allowing short-term capital losses to be offset against long-term capital gains as well as short-term capital gains, and permitting short-term capital losses to be carried forward five years to be offset against either short-term or long-term capital gains.

(f) An estimate is being prepared of the revenue effect if, under the individual income tax, mandatory joint returns were required for husbands and wives and the joint income treated as a single income for earned income credit purposes; in addition, a tax credit of 10 percent of the "earned income" of the wife for services rendered by her, but the tax credit is not to exceed $50.

Economic Conditions Related to Fiscal and Revenue Matters

1. Projects or studies completed

1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on December 1, 5, 15, 22, and 29. - Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler

These memoranda contained in addition to analysis of the current situation the following special studies:

Prices of basic commodities: highest in 1941, lowest in 1942. (Chart in memorandum of December 6.) - Mr. Daggit

2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the weekly memorandum on the business situation. - Miss Washabaugh

3. Memoranda on employment under the Work Projects Administration were prepared on December 1, 8, 15, 22, and 29. - Miss Washabaugh

4. At the request of the Secretary, a memorandum, with three tables and a chart, was prepared, and was transmitted to him on December 4, showing employment in the aviation industry as of September 30. - Mr. Lindow, Mr. Wagner

5. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevraux

6. Daily, weekly, and monthly prices of cotton, wheat, flour, and bread, were compiled. - Mr. Daggit, Mr. Saunders, Miss Washabaugh

7. In accordance with the request of Mr. Leon Henderson on July 19, copies of eight charts on commodity prices and the cost of living were transmitted to him, as indicated below. - Mr. Daggit

The movements of the NICB cost-of-living index compared with the BLS index of 889 commodities were shown from 1935 to date. On the same chart were shown the movements of the BLS index of 889 commodities compared with the BLS index of 28 basic commodities from August 1939 to date. Five charts, as of November 28, December 5, 12, 19, and 26, were transmitted on December 2, 9, 16, 23, and 30, respectively.

Three charts showed the movements of the indexes of 12 foodstuffs and 16 industrial raw materials from August 1940 to date. On the same charts were shown the percentage changes for each of the 28 commodities from

August 1940 to November 21 and 28, to November 28 and December 5, to December 5 and to December 19 and 26. These charts were transmitted on December 2, 9, and 30, respectively.

Two charts showed the movements of the indexes of 11 imported commodities and 17 domestic commodities from August 1940 to date. On the same charts were shown the percentage changes for each of the 28 commodities from August 1940 to December 5 and 12, and to December 12 and 19. These charts were transmitted on December 16 and 23, respectively.

8. At the request of Mr. Kailin on December 5, two wall charts showing changes in commodity prices and in living costs, were furnished the Office of Price Administration on that date, for use of Mr. Kailin in testimony before a Congressional committee. - Mr. Daggit

9. At the request of Mr. Kamarck on December 4, new charts were prepared on export freight movements and lighterage freight in storage and on hand for unloading in New York Harbor, and were transmitted to him, with memorandum, on December 5. Figures to bring the charts up to date are telephoned to Mr. Kamarck each week, and copies of any new charts will be sent him. - Mr. Daggit

10. At the request of the Secretary on December 9, a letter was prepared for his signature, to the Secretary of Agriculture with respect to reduction in margin requirements on cottonseed oil futures contracts by the New York Produce Exchange. The letter was signed on the same date. - Mr. Daggit

11. Arguments against continued appropriations for agricultural payments were prepared, and were transmitted to Under Secretary Bell on December 16. - Mr. Daggit

12. A "Statement of the business prospect" was prepared on December 12, for Mr. Haas, for testimony in the Hearings on the Treasury Department Appropriation Bill for 1942, before the Subcommittee of the Committee on Appropriations, House of Representatives. - Mr. Daggit

II. Projects or studies under way

1. A study is being made of the curtailment in the output of consumer goods. - Mr. Weintraub

2. An analysis is being made of increases in individual incomes to determine their disposition. - Mr. Murphy, Mr. Daggit, Mr. Colclough

3. A compilation is being made of data for measuring monthly changes in consumers cash surpluses, for use in estimating the "inflationary gap". - Mr. Daggit, Mr. Colclough

Actuarial Problems

I. Projects or studies completed

1. At the request of the Division of Tax Research on December 4, a computation was made of the nominal annual rates of interest, compounded semiannually, at which various amounts accumulate after ten years to the maturity value. These figures were transmitted to Mr. Ecker-Racz on December 5, and were incorporated in a letter to Mr. Ezekiel, Department of Agriculture, for signature of Under Secretary Bell. - Mr. Brown, Mr. Kroll

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. Valuation plans are in process of preparation. - Mr. Reagh, Mr. Brown

2. The Foreign Service Retirement Law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuation at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". The State Department has requested an estimate of the appropriation required for the fiscal year 1943. A preliminary estimate was given to the Department of State on October 18, and the work for the valuation has been begun. - Mr. Reagh, Mr. Brown, Mr. Kroll

3. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, an actuarial quinquennial valuation is being made of the Policemen's and Firemen's Pension Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriations Act, approved July 1, 1941. An outline of the information required for the valuation was submitted to Mr. Pilkerton in a letter dated September 13. The basic data were received on October 31, and the work for the valuation has been begun. - Mr. Reagh, Mr. Brown, Mr. Kroll, Mrs. McDonough

4. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Subcommittee on Retirement, has again become active and is attempting to draft legislation which would coordinate the provisions of the Social Security Act with the Civil Service Retirement Act. Several drafts of a proposed bill have been prepared. A report has been prepared but has not yet been submitted to the main committee. - Mr. Reagh, Mr. Brown

Other Projects or Studies

1. Publications

(a) For the December issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Barnett

All the material submitted for the December issue was reviewed and edited. Substantial revision was made in the table on the estimated amount of all interest-bearing governmental securities outstanding, as of June 30, 1941, classified by issues and by tax status.

Revisions are being considered for future issues. - Mr. Lindow, Mr. Lynch

(b) For the publication Prices and Yields of Public Marketable Securities Issued by the United States Government and by Federal Agencies, computations were made and copy was prepared for the issue covering the month of November. This publication shows by securities the coupon rates, maturities, and for each day of the month, together with a monthly average, bid and ask quotations (accrued interest to be added), and yields. - Mr. Reagh, Mr. Brown, Mr. Lindow, Mr. Kroll, Mr. Moody, Miss McCoy

(c) The article on estimates of receipts for the text of the Annual Report of the Secretary of the Treasury for the fiscal year 1941 was completed. - Mr. O'Donnell

The Annual Report was completed and final page proof was submitted to the printer. - Mr. Tickton, Miss Westerman

3. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Miss Ziegler, and other members of the staff in appropriate fields of work.

During December 419 letters were received in the Division and 437 were handled as required.

4. Charts

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of December is attached.

Work Completed in the Graphic Section, Division of Research and Statistics, during December 1941

Type of work	For Division of R & S	For Others	Total
Graphic:			
New Charts:			
Total charts completed	35	43	78
Bond book charts completed	63	-	63
Charts brought up to date:			
$ bond chart books brought up to date	26 (t)	-	26 (t)
All other charts brought up to date	698	37	735
Miscellaneous:			
Total jobs	11	5	16
Photographic:			
Photographs:			
Total jobs	86	73	159
Number of-			
Negatives	242	138	380
Contact prints	336	1,426	1,762
Enlargements	326	100	426
Photostats:			
Total jobs	167	37	204
Number of-			
Lettersize copies	1,637	187	1,824
All other copies	4,547	396	4,943
Multilith:			
Total jobs	18	3	21
Number of-			
Zinc plates	146	11	157
Miscellaneous:			
Total jobs	16	12	28

Graphic Section, Division of Research and Statistics, by months, beginning July 1941.

33151

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
A. Graphic:							
New charts completed	34	43	34	49	38	78	276
Charts brought up to date	721	727	757	709	692	735	4,341
Bond book charts completed	2	58	1	—	1	63	125
Bond books brought up to date	26(times)	26 (t)	27(times)	26-(t)	27 (t)	26(t)	158(t
Miscellaneous	27	31	26	23	20	16	143
B. Photographic:							
Photographs:							
Total jobs	91	59	87	99	126	159	621
Number of-							
Negatives	193	173	165	197	260	380	1,368
Contact prints	254	654	972	333	704	1,762	4,679
Enlargements	141	335	82	332	451	426	1,767
Photostats:							
Total jobs	169	202	164	215	225	204	1,179
Number of-							
Lettersize copies	2,802	1,287	2,071	1,737	2,722	1,824	12,443
All other copies	7,519	5,276	5,986	5,209	7,945	4,943	36,878
Multilith:							
Total jobs	22	22	20	27	16	21	128
Number of-							
Zinc plates	153	166	135	150	165	157	926
Miscellaneous:							
Total jobs	34	37	29	30	44	28	202

324

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5-1-41 9-18-41

OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

February 28, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended February 28, 1942.

During the past week conferences have been held with representatives of the Belgian Congo Government and Office of Lend-Lease Administration concerning the purchase of proposed requirements for metals, equipment, and miscellaneous items, such purchases to be on a cash-reimbursement basis. It is estimated these requirements will approximate $100,000,000 for the balance of this current year.

Clayton E. Mack
Director of Procurement

LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF FEBRUARY 28, 1942
(In millions of dollars)

	Total	U. K.	RUSSIA	CHINA	ADMINISTRATIVE EXPENSES	UNDISTRIBUTED & MISCELLANEOUS
Allocations	$932.0 (931.2)	$587.6 (716.7)	$157.8 (143.0)	$ 57.2 (57.4)	$ .9 (.9)	$128.5 (13.2)
Purchase Authorization (Requisitions)	$719.6 (725.1)	$513.4 (528.3)	$162.3 (153.4)	$ 41.5 (41.5)	- -	$ 2.4 (1.9)
Requisitions cleared for purchase	$643.7 (637.1)	$490.1 (497.4)	$117.4 (104.0)	$ 33.8 (33.8)	- -	$ 2.4 (1.9)
Obligations (Purchase)	$602.3 (576.8)	$461.5 (452.2)	$104.7 (90.8)	$ 33.8 (31.9)	.5 (.5)	$ 1.8 (1.4)
*Deliveries to Foreign Governments at U. S. Ports	$210.4 (195.4)	$185.8 (177.6)	$ 12.3 (5.9)	$ 12.1 (11.8)	- -	$ .2 (.06)

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

Note: Figures in parentheses are those shown on report of February 21, 1942.

[illegible] the over-all change in allocations shows an [illegible] the amount of $855,900.

[illegible] comparison of the United Kingdom allocations show a net [illegible] of $129,091,235.99. This change is the result [illegible] removal of excess steel funds in the amount of $[illegible].64 against which is off-set increases in allocations of $21,854,297.65, or a net decrease of $129,091,235.99.

The Chinese allocations decreased $232,691.72. This reduction is the result of a decrease in a requisition for tires and tubes in the amount of $240,205.32, and an increase of $[illegible].60 in a requisition for corrugated galvanized steel [illegible]

[illegible] the other hand, the allocations for Russia and Undistributed allocations increased $14,774,378.45 and $115,405,445.26 [illegible]ively.

[illegible] net effect of these changes is the increase in allocations of $855,900, the amount of allocations received from the Office of Lend-Lease Administration.

[illegible] Purchase Authorizations:

[illegible] Purchase Authorizations show a net decrease for the [illegible] $[illegible],468,786.22. Funds earmarked for the purchase of [illegible] the amount of $24,217,199.85 were released against [illegible] that there was an increase in obligations of [illegible], making a net decrease of $14,813,781.69.

[illegible] other hand the purchase authorizations of Russia [illegible] increased $8,912,474.33 and $[illegible],507.[illegible], respectively, [illegible] to an increase of Miscellaneous of $428,[illegible].58, [illegible] of increases for Turkey, Peru, Brazil and Administra[illegible] $421,552.00, and $775.00, $160.00, and $6,366.38, [illegible]

3. Requisitions Cleared for Purchase:

Requisitions cleared for purchase show a net increase of $6,537,838.78.

The United Kingdom shows a decrease of earmarked funds of $7,289,731.69.

There were increases for Russia, China and Miscellaneous of $13,386,054.33, $3,597.56 and $427,918.58.

For Miss Chauncey

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

February 26, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended February 18, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

C
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FEDERAL RESERVE BANK

OF NEW YORK

February 26, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended February 18, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:vw:2-27-42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

(In Millions of Dollars)

Week Ended February 18, 1942

Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) DEBITS: Total Debits	DEBITS: Gov't Expenditures(a)	DEBITS: Other Debits	CREDITS: Total Credits	CREDITS: Proceeds of Sales of Gold	CREDITS: Proceeds of Sales of Securities (Official)(b)	CREDITS: Other Credits(c)	Net Incr. (+) or Decr. (-) in Balance	BANK OF FRANCE DEBITS: Total Debits	DEBITS: Gov't Expenditures (d)	DEBITS: Other Debits	CREDITS: Total Credits	CREDITS: Proceeds of Gold Sales	CREDITS: Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3(e)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
WEEK ENDED:															
Jan. 28	21.3	15.8	5.5	22.8	-	-	22.8	+ 1.5	0.1	-	0.1	0.1	-	0.1	-
Feb. 4	27.9	19.0	8.9	17.8	-	-	17.8	-10.1	-	-	-	-	-	-	-
11	19.2	14.3	4.9	10.2	-	1.0	9.2	- 9.0	-	-	-	0.1	-	0.1	+ 0.1
18	17.7	14.8	2.9	14.9	-	-	14.9(f)	- 2.8	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) $19.0 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 40.2 million

*For monthly breakdown see tabulations prior to April 23, 1941.

**For monthly breakdown see tabulations prior to October 8, 1941.

(See attached sheet for other footnotes)

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

Week ended February 18, 1942 $ - million

Cumulation from July 6, 1940 $ 162.7 million

(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.

(d) Includes payments for account of French Air Commission and French Purchasing Commission.

(e) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(f) Includes:

$2.5 million transferred from New York accounts of British authorized banks;
$5.4 million representing refunds of advances made to American firms by the British Purchasing Commission; and
$2.0 million paid by the Treasury to British Government account in connection with payments to U. S. Army - Egypt.

(In Millions of Dollars)

PERIOD	BANK OF CANADA (and Canadian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	COMMONWEALTH BANK OF AUSTRALIA (and Australian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/28/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
1941																
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.6	2.0	+ 1.3
Dec. 4 - Dec. 31	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
1942																
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Week Ended:																
Jan. 28	11.3	-	11.3	16.7	15.4	-	-	1.3	+ 5.4	0.5	-	0.5	8.4	-	8.4	+ 7.9
Feb. 4	7.6	-	7.6	8.7	0.5	-	-	8.2	+ 1.1	6.5	5.3	1.2	0.7	-	0.7	- 5.8
11	5.2	-	5.2	10.8	5.9	-	-	4.9	+ 5.6	1.5	-	1.5	0.1	-	0.1	- 1.4
18	16.4	-	16.4	10.3	3.3	-	-	7.0	- 6.1	0.2	-	0.2	0.2	-	0.2(a)	-

Weekly Average of Total Debits Since Outbreak of War through February 18, 1942 $ 7.8 million

* For monthly breakdown see tabulations prior to April 23, 1941.

** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Includes $50,000 transferred to Australian government account here for payment to U. S. Army - Fiji Islands.

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DEPARTMENT OF STATE
WASHINGTON

February 28, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the Department's telegram No. 93, dated February 12, 1942, to the American Embassy, Chungking, China, transmitting inquiries of the Board of Economic Warfare as to the value of monetary metals and various currencies within China, and copies of the Embassy's reply, telegram No. 158, dated February 25, 1942, 1 p.m.

Enclosures:

1. To Embassy, Chungking,
   No. 93, February 12, 1942.

2. From Embassy, Chungking,
   No. 158, February 25, 1942.

Copy:bj:3-2-42

COPY

TELEGRAM SENT

PD

GRAY

February 12, 1942

7 p.m.

AMEMBASSY,

CHUNGKING (CHINA).

93.

Please report at instance Board of Economic Warfare such data as may be readily available in regard to the following: (1) The present value of silver in terms of Chinese currency in any free or black market; (2) The present value of gold in terms of Chinese currency in any free or black market; (3) The present value of these metals in terms of military yen and/or Federal Reserve Bank currency and/or Central Reserve Bank currency in any free or black market; (4) The present value in terms of Chinese currency of Federal Reserve Bank notes and military yen in any free or black market.

HULL
(DA)

FE:JWB:MS EA FE PA/H FD DCA

Copy:vw:2-28-42

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

Chungking via N.R.

Dated February 25, 1942

Rec'd 9:43 a.m.

Secretary of State,

Washington.

158, February 25, 1 p.m.

Department's 93, February 12, 7 p.m.

The following information has been obtained through the Ministry of Finance which is based on their investigation and reports from various sources:

"One. Price of silver black market rate: one silver dollar equals $24.00 Chinese currency; one tael equals 8 to 12 Chinese dollars.

Two. Price of gold black market rate: one tael equals $1500 Chinese currency (maximum price at one time $2800 Chinese currency). Official rate quoted by Central Bank of China one tael equals $680 Chinese currency.

Three. Japanese military yen, et cetera, in terms of Chinese currency: (1) Japanese military yen (A) in Shanghai equals $4.50 Chinese currency (B) in Canton equals $4.00 Chinese currency (C) in Saiyuan North China equals $2.50 Chinese currency; (2) Federal Reserve Bank notes in North China; maximum Federal Reserve Bank 85 cents equals $1.00 Chinese currency; minimum Federal Reserve Bank 50 cents equals $1.00 Chinese currency; (3) Central Reserve Bank notes price in Shanghai (A) fixed rate quoted by Central Reserve Bank: Central Reserve Bank $1.00 equals $1.30 Chinese currency (B) Black market price Central Reserve Bank $1.00 equals $1.05 Chinese currency."

GAUSS

BB

Copy:bj:3-2-42

TELEGRAM SENT

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

February 22, 1942
2 p.m.

AMERICAN CONSUL,

CALCUTTA, (INDIA).

RUSH

CS

Your 112, February 25, 6 p.m.

FROM TREASURY.

NOTE (1) To facilitate the negotiation of checks drawn on the Treasurer of the United States the following procedure is suggested.

(2) All U. S. dollar checks drawn on the Treasurer of the United States negotiated by the National City Bank of New York are to be delivered to the American Consul General, Calcutta, accompanied by list in triplicate with complete description each check as follows: Name of drawer; symbol number; check number; amount; payee's name; date of check.

Consular officer will carefully verify checks against list and advise Treasury by wire through State Department aggregate amount of checks

delivered

-2-#68, February 28, 2 p.m. to Calcutta.

delivered by bank. Upon receipt of this advice Treasury will effect payment in corresponding amount to the National City Bank of New York, New York, for account of its Calcutta branch.

Consular officer should instruct National City Bank of New York to use all possible diligence in identification of payee and determining validity of endorsements. The National City Bank of New York, Calcutta, should endorse checks as follows: INNER QUOTE Pay to the order of the Treasurer of the United States for credit of our account with the National City Bank of New York, New York. Signed National City Bank of New York, Calcutta. END INNER QUOTE. Treasury will look to the National City Bank of New York, Calcutta, only for usual guaranty under laws applicable in India.

Consular officer should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by safest means available. Second copy of list should follow by separate carrier at earliest possible date. Third copy should be retained by Consular officer.

(3) Consular

-3-#68, February 28, 2 p.m. to Calcutta.

(3) Consular officer should make no arrangements for insurance as shipments will be covered by Government Losses in Shipment Act.

(4) Please advise National City Bank of New York and other U. S. Government officials appropriate parts hereof.

(5) Please handle checks mentioned your 112 in manner herein outlined. Treasury is paying National City Bank of New York, New York $1,276.18.

(6) To minimize number of checks drawn on Treasurer of United States, suggest you advise disbursing officers that they should cable through their respective departments their local currency requirements. Arrangements will then be made to advance dollar credits to National City Bank of New York, Calcutta, through its New York office. END QUOTE

The Department approves the foregoing. Any expense incurred in carrying out the instructions contained in this telegram should be included in regular accounts as separate item for billing Treasury in accordance Sec. V-45, Foreign Service Regulations.

Please repeat

-4-#68, February 28, 2 p.m. to Calcutta.

Please repeat foregoing to Consul, Bombay omitting paragraph No. 5 and substituting "Bombay" for "Calcutta" throughout.

WELLES
Acting
(FL)

FD:FL:ME FA

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 28, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£18,000
Purchased from commercial concerns	£ 9,000

Open market sterling held at 4.03-3/4, with no reported transactions.

In a very dull market the Canadian dollar discount widened to 11-5/8%, as compared with 11-1/4% yesterday.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2367
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5275
Venezuelan bolivar	.2765
Cuban peso	1/4% premium

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Mexico was shipping $1,526,000 in gold from Mexico to the Federal, to be earmarked for its account.

The State Department forwarded a cable to us reporting that the New Goldfields of Venezuela Ltd. shipped $151,000 in gold from Venezuela to the New York agency of the Royal Bank of Canada, for sale to the New York Assay Office.

We made no purchases of silver during the month of February. This makes the third consecutive month in which no silver has been offered to us.

BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL &
SECRET

28th February, 1942.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.

United States Treasury,

Washington, D.C.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 69

Information received up to 7 A.M., 27th February, 1942.

1. NAVAL

It is now thought that the ship torpedoed by H.M. submarine TRIDENT on the 23rd was an eight inch cruiser of the PRINZ EUGEN class. One of H.M. paddle minesweepers shot down an enemy aircraft off the HUMBER and possibly damaged another yesterday. A 5,800 ton British tanker was torpedoed southwest of PUERTO RICO on the 25th and two small British ships were torpedoed off BRITISH GUIANA on the 23rd and 24th respectively.

2. MILITARY

LIBYA. 25th. Little enemy ground activity. One enemy column including eighteen tanks operating in the area southeast of MEKILI eventually withdrew.

BORNEO. The Japanese have occupied SINTANG.

RUSSIA. There is no further information beyond that contained in the official communiques concerning operations in the STARAYA RUSSA area. The Russians continue to attack in the DONETS sector.

3. AIR OPERATIONS

WESTERN FRONT. 25th/26th. KIEL. Fifty-five tons dropped. Bursts, including one from a 4,000 pound bomb were seen on what was thought to be the south floating dock. A large fire was reported in the Deutsche Werke shipyards. Four R.C.A.F. and six R.A.A.F. bombers took part without loss.

26th. Hits or very near misses were made on two enemy ships of 4,000 and 2,000 tons off the Danish and Dutch coasts respectively.

26th/27th. Seventy-eight aircraft were sent out - KIEL floating dock forty-nine, sea mining twenty-seven, leaflets two. Three bombers are missing and two crashed, the crews of both of them being killed. Thirty-eight enemy aircraft were operating against this country most of them laying mines off the East Coast.

LIBYA. 24th/25th. Wellingtons laid mines off BENGHAZI, two missing. Wellingtons attacked TRIPOLI HARBOUR.

25th. Fighters carried out covering patrols and an offensive sweep without incident.

BURMA. MINGALADON. 25th. Ten of our bombers on the ground were destroyed or rendered unserviceable.

RESTRICTED

MID 319.1 No. 644 M.I.D., W.D. 11:00 A.M., February 28, 1942.
Situation 8-11-41

SITUATION REPORT

I. Pacific Theater.

Philippines: No changes to report. Burma: No significant changes reported. Java: American aircraft, including flying fortresses and dive bombers, assisted in the attack on Japanese invasion forces North of Java on February 27. The Japanese increased the intensity of the raids on Java on February 27. Enemy planes attacked the harbor and airport in the Batavia Area, and the Naval Base at Soerabaja. India: Port Blair, in the Andaman Islands, was raided twice by Japanese planes, suggesting an imminent move to occupy the islands.

II. Western Theater.

In a combined Navy, Army and Air Force operation, British Parachute Troops of a special trained airforce division were dropped on the French Coast during the night of February 27/28 by bombing planes. The raid was said to be a success.

III. Eastern Theater.

Hard fighting continues along the front especially at CHOLM, VELIZH and along the VOLKOV River. The Russians attacking at KHARKOV claim to be approaching CHUGUYEV. It is reported that the German counterattack in the UKRAINE has reached LOSOVAYA (70 miles south of KHARKOV). The official army organ Red Star reported on February 27 that the Germans have increased their air support on all fronts. The number of daily flights which have been 15 to 20 in the past have been increased to 100 or 150.

IV. Middle Eastern Theater.

No air or land activity of importance to report.

RESTRICTED