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WAR DEPARTMENT  
Bureau of Public Relations  
Press Branch  
Tel. - RE 6700  
Bra. 3425 and 3438

FUTURE

RELEASE

FOR RELEASE AFTER DELIVERY 12:30 P.M., E.W.T., SUNDAY, MARCH 1, 1942

ADDRESS OF THE HONORABLE JOHN J. MCCLOY,  
ASSISTANT SECRETARY OF WAR  
OVER THE NATIONAL NETWORK OF THE COLUMBIA  
BROADCASTING SYSTEM 12:15 to 12:30 P.M., E.W.T.  
SUNDAY, MARCH 1, 1942.

THE ARMY SEEKS OFFICERS

The Army is about to enter upon an expansion program which will be in keeping with the determination of the country to win this war and win it decisively.

This means a great number of men and it also means a great number of trained and tested officers.

There has been evolved a simple and straightforward system whereby these officers will be chosen and I want to tell you today about the main features of it.

In the first place we are going to seek 75,000 new officers this year for the ground forces alone and we are going to do it by selecting, at the outset, for the Officer Candidate Schools somewhere around 95,000 to compete for these commissions.

There are two questions which every eligible man wants to have answered. By eligible man I mean a man between 18 and 45 with some education, a good record in civil life, and marked qualities of leadership. These questions are "How do I go about getting a commission in the Army?" and "What are my chances of getting one?" The answer to the first is simple. The first thing you do is join the Army, join it by enlistment or voluntary induction, — if you are not already in it, — and you apply through your commanding officer for appointment to an Officer Candidate School. If you are already in the Army and if you have not already applied, you apply to your Commanding Officer. There is only one limitation, and that is you must have had a rating of 110 or better in your general classification test which the Army gives all men who enter it.

The answer to the second question is even simpler. If there are 75,000 officers to be selected this year and the system of selection is free and competitive, as it will be, you have an excellent chance of being commissioned.

First, let us take the case of the man who is not now in the Army. He enlists or is inducted and he is sent to a Reception Center and from there either to a unit of the Field Army or to one of the Replacement Centers. Whether with the unit or the Replacement Center, he spends three months getting his basic training as a soldier. He serves in the ranks, gets an idea of the stuff of which an American Army is made, and at the end of that period he is selected on the basis of his record in civil life and his record during his service in the ranks. On what he does in the three months' training of the Officer Candidate School taken together with his entire record, he is selected for a commission.

MCCLOY

In the case of the man already in the Army, if he has served a minimum of three months with troops, whether with a unit or in the Replacement Center, he also is selected on the same basis, i. e., education, civil and military record. He is chosen for the Officer Candidate School, and he competes there for the job of becoming a leader of soldiers.

The system of selection is simple, straightforward and objective. It is designed solely to get the men who show the quality of leadership that our Army deserves. The feature of the service in the ranks is one of the best elements in the system: First, because it gives the candidate an opportunity to understand the problems of the man in the ranks; second, because it gives his officers a chance to observe him in circumstances which test the very quality we seek above all others, — leadership; and, thirdly, it gives him his basic training as a soldier and enables the Officer School to concentrate on the more advanced and technical work which modern war demands.

Before I go any further I want to take up the case of the civilian with dependents who, because of those dependents, is in a deferred status in the draft. Let us say he has been working for a few years, is married and perhaps has other dependents. He may feel that, although he is anxious to serve, he cannot support his family on a private's pay. Under a new system just authorized by the Secretary of War, anyone who has registered and has been deferred because of dependency may now offer himself for induction, for the sole purpose of trying for a commission. If he fails to be recommended for an Officer Candidate School at the end of four months of service in the ranks, he may at his request be transferred to the Enlisted Reserve. That means that he will return to civil life and will not be called to active service unless his original dependency class is called. If he fails to complete the course at an Officer Candidate School, or is not recommended by the Commandant of his School for a commission, he will likewise be transferred to the Enlisted Reserve on the same basis.

On satisfactory completion of the three months' course at an Officer Candidate School, the candidate is commissioned a second lieutenant. Today a second lieutenant is not assigned to active duty with a combat unit after the age of thirty, but special provision has been made for men over 29 years of age who successfully complete the course. Immediately on being commissioned, they may be given advanced training, after which they may be promoted to fill the higher grades. After assignment to their units, the sky is the limit and young and old, they can be promoted to any rank in the Army they are competent to fill.

Under the system in force today, every man is under scrutiny as possible officer material from the day he arrives at one of the great Replacement Training Centers or field units. His educational background and his record in civilian life are known to his Commanding Officer. If that record is good, he is like a man who comes to a business organization with a high recommendation. But, just as in the business world, it is up to him to live up to that recommendation. He can do it in only one way — by displaying the clean-cut style of thinking and acting that in the Army, as everywhere else, is recognized as the badge of leadership. That quality of leadership, above all else, is what the Army needs and demands of its officers. There is plenty of room in the Officer Candidate Schools for the man who possesses it, whether his training has been of the academic type or he has been self-educated.

Of course, the man with a background of knowledge in mechanical and electrical engineering will have definite advantages in the technical services, such as, the Signal Corps, the Ordnance Department and the Corps of Engineers. Likewise, men with pre-medical training or experience in hospital management have a definite advantage in the Medical Administrative Corps. But any man may apply for an Officer Candidate School in any branch he desires. He is not limited to the arm or service to which he happened to be assigned for his basic training of three months.

MOBE

It is a very important part of the duty of every company commander to be on the watch for the spark of leadership. Commanders have been ordered by General Marshall to encourage and push forward for Officer Candidate training all soldiers who show promise of that leadership, and from time to time inspections will be made to see that commanders are performing their duty in this respect.

Applications for the Officer Candidate Schools pass through the Company or other unit Commander and his approval or disapproval will have a bearing upon who is to be selected but the Company Commander's decision is by no means determinative. All applications will be passed upon by an impartial reviewing board. There are some other features of the system in which you may be interested. Until recently the physical examinations for Officer Candidate Schools were more severe than those for the combat soldier. Today, generally speaking, any man who is physically eligible for service in the ranks will also be physically eligible for a commission.

Failure to obtain a commission on your first try does not mean that you remain eliminated from consideration. Any man who has gone through his basic training without having been chosen for the Officer Candidate School need not be discouraged. He can re-apply from his field unit and on the basis of his further experience and training he may very well be selected although he did not make it the first time.

Where we find a circumstance that interferes with the assignment of an outstanding man to an Officer Candidate School, it will be our intention to eliminate the circumstance rather than to lose good officer material. For example, there may be a time lag between the man's completion of service at the Replacement Center and the date when the next class begins at the School for which he was recommended. Instead of leaving the Replacement Center for duty with the unit the man will be held at the Center for further training during the interval. The same situation may arise where a unit has received orders to move to a distant post. In all such cases, where it does not interfere with actual military necessity the prospective candidate will be detached from the unit and sent to the School.

There will be no set quota of officer candidates from any particular unit. There may be two men or there may be ten men in a Company or similar unit who possess the qualities which the Army is seeking and the number selected will be determined by the number of men there are who possess the qualities. In some cases military necessities would not permit the disbandment of an entire unit and having them all march off to an Officer Candidate School at one time but it is our intention to adjust matters so that in due course every qualified man will have his chance.

In short, our object is to reach the great reserves of first-rate material in our available manpower in and out of the Army and we do not intend to set up any restrictive rules which will prevent our getting that material. Only the manager of a large-scale business eternally on the look-out for good executives can understand the eagerness with which the Army is scanning its ranks for good officer material.

There is nothing mysterious about what it takes to make a good officer. It is simply the faculty to think quickly and clearly and to act decisively. It is revealed in the ways a man does little things quite as much as he handles big ones and the Army's method of discovering and testing it is based on common sense principles and not on rules.

MORE

There will always be the case of a man who wants to know how he can get a commission in a combat unit direct from civilian life. Except in a handful of very special cases, so small that you can dismiss them from your consideration, the answer is --- there is no way to do it. But the way it is set up, --- the way I have described it, --- I think you will agree, is fair, sensible and designed to produce good officers with an appreciation of what it means to be an American soldier. 7

We have a good Army today; in a little while we are going to have a great Army and it will be officered by men who have not been chosen through favoritism or personal selection but by men who have gone through a period of test and training and proven their merit.

END

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DISTRIBUTION: Z

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China.  
DATE: March 1, 1942, noon.  
NO.: 176.

Strictly confidential information has reached the Embassy that a draft Sino-American loan agreement has been received from Washington by the Ministry of Finance and has been discussed. It is said that the Ministry resents on the ground that a measure of control is contemplated the provision for consultation by the Government of China with the Treasury Department concerning expenditures under the loan. The Ministry has been disappointed to find that the loan is not granted, as the Press has stated, as an absolute gift in recognition of China's contribution to the war effort in general.

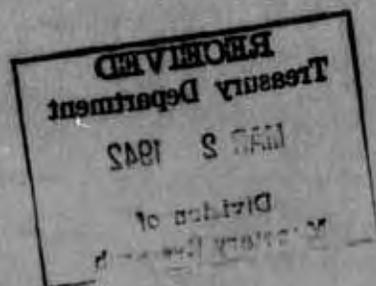
I am not prepared to express an opinion on the question of policy whether or not we should provide for some means of repayment. I have been privately told by a prominent and intelligent Chinese banker that the obtainment of the loan was too easy for the loan to be appreciated or for provision for its effective use to be insured. There is a perceptible assumption on the part of Chungking officials and bankers that this is a compensation which was due to China for its past and present resistance to Japan and for what the Chinese regard as our past and present shortcomings.

It is my

-2-

It is my conviction that for the purpose of having some measure of control over the matter in which so large a loan is expended we should firmly insist on retaining the provision for consultation. It is my opinion and I have indicated in previous telegrams and in despatch No. 266 of January 8 that the best interests of China and our own best interests as well would be served by controls and allocation of parts of the loan for specific purposes.

GAUSS





UNITED STATES GOVERNMENT  
COORDINATOR OF INFORMATION  
WASHINGTON, D. C.

March 1, 1942

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

Dear Henry:

You may be interested in the  
attached summary from the British Ministry  
of Information weekly Empire Guidance.

Sincerely,

*Bill*  
William J. Donovan

Enclosure

BURMA

It is doubtful that Rangoon will be able to hold out. We shall be forced to fight a series of rear-guard actions until allied numerical superiority is obtained. However, the Japanese naval supremacy will ultimately be wrested from her as the Pacific war is largely naval and the allies possess the largest navies and almost unlimited resources for naval expansion. In the meantime every successful attack on her merchant and war navies should be stressed.

LIBYA

Rommel's anxiety to be sure of absolute superiority before attacking is indicated by his long pause. He has obtained substantial reinforcements with which we are unable to compete due to commitments in other theatres. We must be prepared for further retreat. Do not play up Tobruk as a strong point or as a prototype of successful defense as we cannot be absolutely sure of holding it.

INDIA

Stress that any possible proposals put forth in London will be the logical development of the British policy toward India and not the result of pressure on the British government. For years the government has expressed its willingness to accept almost any form of government on which the various Indian parties can agree. Also emphasize the immediate cooperation of the Indians in government, if it should come to pass, has been made possible by the recent change in the attitude of the Congress party towards the war. This has resulted in

the China and India association in a common anti-Japanese Front.

BOLSHEVISATION OF EUROPE

Refute this favorite Nazi propaganda theme by these points:

a. Stalin has made it perfectly clear that Russia is fighting a defensive war for her own liberation with no intention of destroying German freedom. He has less intention of destroying German freedom than have the other Central European countries.

b. Cripps, in his Bristol speech, did not at all recommend Russian control of Europe as the Nazi propagandists charged. Rather he asserted that it was to Europe's interest that our troops should invade Germany at the same time as the Russian army. This thesis has the enthusiastic support of the Russian government.

c. We intend to play an equal part with Russia in the reconstruction of Europe. The collapse of France has made any reversion to the state of affairs existing before the war impossible.

d. London, the source of news for peoples of occupied Europe and the temporary home of the allied governments, is the natural center for their cooperation in rebuilding Europe.

RESTRICTED

MID 319.1 No. 645 M.I.D., W.D. 11:00 A.M., March 1, 1942.  
Situation 8-11-41

SITUATION REPORTI. Pacific Theater.

Philippines: Japanese on Bataan Peninsula have adopted a defensive attitude. There is definite indication that their heavy losses have shaken them. They are beginning to show signs of exhaustion. Operations are probably about to enter a phase of positional warfare of indecisive character. In North Luzon our mountain troops have forced Japs to evacuate the Abra Valley from Cervantes to Benguet. Australasia: Two landings on the island of Java by the Japanese were reported at Bantam, on the northwestern coast, and at Indramaju Bay, west of Batavia. A third was also made between Rembang and Soerabaja. Burma: The Sittang River has been crossed by Japanese troops who have thereby flanked the forces defending Rangoon.

II. Western Theater.

No activity of importance to report.

III. Eastern Theater.

Hard fighting is reported along the front, particularly in the area of Staraya Russa and in the Crimea.

IV. Middle Eastern Theater.

Increased patrol activity accompanied by some air support is reported from both combatant headquarters. There are no major changes in the ground situation.

RESTRICTED

March 2, 1942  
1:03 p.m.

Speaker  
Rayburn: Henry.

HMJr: In person.

R: How are you?

HMJr: Fine.

R: Two things I was interested in about your appearance here tomorrow.

HMJr: Yes.

R: One of them is on this joint return thing, and the other's on this depreciation allowance for these little oil companies.

HMJr: Yeah.

R: Are you going to take a position on that tomorrow?

HMJr: Yeah.

R: I see. Are you going to advocate joint returns?

HMJr: Yeah, and.....

R: Doing away with it and.....

HMJr: Well, no, that they have to file the joint return.

R: They have to file a joint return.

HMJr: But give credit for earned income for either spouse.

R: Uh huh. Well, that does away with our Community Property outfit.

HMJr: Well, we're recommending that, too.

R: Uh huh. Then you're recommending doing away with

- 2 -

the depreciation allowance?

HMJr: Yes, sir.

R: God Almighty!

HMJr: Yeah. Anything where there's a little special, it runs into a lot of money.

R: Well, of course.....

HMJr: Will you never talk to me again?

R: No, I don't think so; but I'm going to talk about you like hell.

HMJr: (Laughs)

R: Henry, we've got to try to lick you on both there.

HMJr: Well.....

R: I hate like hell to fight a committee, but if they bring it in, I'm going to have to fight on that. I just know this, that if you do away with the depreciation allowance, you're going to put the little oil fellows all out of business. That's my opinion, and that's the opinion of every one of them; and I was hoping you weren't going off on that until I could talk to you about it.

HMJr: Well, I'm always glad to talk to you, but I wanted to - this is something about which we have made up our minds, Sam. There's no use kidding you.

R: Yeah.

HMJr: To offer.

R: Yeah.

HMJr: I've been licked by good men before. (Laughs)

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- R: Well, we'll try to lick you in the committee; and if we can't do it there, we'll try to lick you over here, then.
- HMJr: Well, that's fair notice. You're a better sport than a lot of them.
- R: Well, I'm - I've told - the Ways and Means Committee understand that, too.
- HMJr: I think they do.
- R: Yeah.
- HMJr: But I hope it's nothing personal.
- R: I hate like hell to - oh, hell no. I hate like hell to have to do it, because I hate like hell to fight a committee and I think we can.....
- HMJr: You see, I stated my position in Cleveland about a month ago.....
- R: I know.
- HMJr: .....on those - the very things that you're asking me about.
- R: I know you did.
- HMJr: And - well, there they are. They total up, these various things, that and state municipals exemption, they total about a billion dollars.
- R: Uh huh. Well, how much does this depreciation amount to?
- HMJr: Oh, I just can't say offhand, but it runs.....
- R: Considerable. But the devil of it is, there isn't an independent oil man in the country doesn't think it's going to stop him, now I'm telling you that; because they're the development, the other fellows are not.
- HMJr: Well, we're working something out for the developers.

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R: Uh huh.

HMJr: Sam.

R: Yeah.

HMJr: We're working out something for them.

R: Oh, I see.

HMJr: But I just - the fact that year after year they can deduct twenty-seven and a half per cent after they've paid for the whole well just doesn't make sense.

R: Uh huh. All right, sir.

HMJr: But at least I appreciate your warning me.

R: Yeah. Well, I've got to do it, you know.

HMJr: That's all right.

R: And my conviction on the other side is just as strong as yours, and I don't blame you for yours a bit.

HMJr: Well, that's.....

R: And, of course, you've got the business down there of trying to raise some money.

HMJr: That's it.

R: And I'm going to try and see if I can't get it some other place.

HMJr: Okay.

R: All right, Henry.

HMJr: Thank you.

R: Good-bye.

March 2, 1942  
2:12 p.m.

HMJr: How are you?

Gerard Swope: Very well.

HMJr: I got a note that you wanted to speak to me.

S: Very much - at your convenience.

HMJr: Well, I'm having a dress rehearsal, questions and answers, on my tax bill. I don't know how long that'll last.

S: All right. I can - well, just as late as you wish.

HMJr: Well, let me see how I get along. There's only one other appointment.

S: Yes. Well, I have a date at three o'clock with Mr. Nelson.

HMJr: Well, keep that.

S: All right. Thank you. And I ought to be back from there well before four. If you'd let me know then at your convenience, I'll come right in.

HMJr: This is - in fact, I've got three bills - three hearings to prepare for.

S: Yes, I know you have.

HMJr: But I'd like to see you.

S: I'd like to see you.

HMJr: Thank you.

S: Thank you.

March 2, 1942  
2:15 p.m.

Eugene  
Duffield: Hello.

HMJr: Gene?

D: Yes.

HMJr: Your boys are just too good.

D: Why?

HMJr: This fellow Kramer with his story on our bank thing.

D: Yeah.

HMJr: I congratulate you.

D: Is it all right?

HMJr: Yeah.

D: Uh huh.

HMJr: And in coming back, I think I once before asked you nothing. You never suffered.

D: Yeah.

HMJr: I did something which I've never done before. I sat down on a man-to-man basis with the American Bankers.

D: I see.

HMJr: And - with the understanding that they wouldn't say anything until after Tuesday.

D: Yeah.

HMJr: And I just wondered whether they'd let me down or not.

D: Yes, I think so; but I think they told a lot of their friends. We didn't get this from them, however.

HMJr: That was the understanding, that they weren't.

D: Yeah. Well, we got this second-hand in the first place.

HMJr: Well, it was from Burgess and whatever the - Stonier, wasn't it?

D: Yeah, that's right. But I think what they did - I know what they did was to talk ~~to~~ some other people, some of their friends. They didn't talk to newspaper men directly.

HMJr: Well.....

D: But you see it spreads out from a guy like that, and then pretty soon it gets to somebody who doesn't feel bound, and he talks to us. That's what happened.

HMJr: Well, it was an experiment, and it didn't work.

D: That's right. That's right.

HMJr: But you got a good story, which is okay with me.

D: Yeah, Well, that - I tell you very honestly - that's what happened.

HMJr: Well, that's all right. You know I never - but it's these things, you try, and say, "Well, now, everything's going to be lovely," and you can sit down with these fellows and they're gentlemen and so forth, and you can tell them and get their advice; and I said, "Now, remember, nothing on this until after I testify."

D: That's right.

HMJr: And they said, "So help us, nothing."

D: Yeah. Well.....

HMJr: And there she is.

D: Yeah. They tell a few friends and.....

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HMJr: That's enough.

D: That's enough.

HMJr: That's enough.

D: Yeah.

HMJr: No great harm done other than it's just for future guidance, that's all.

D: Yeah, yeah. Well, that's why I don't mind telling you.

HMJr: And - okay.

D: Okay, sir.

HMJr: Thank you.

D: You bet.

HMJr: You're welcome.

D: Uh huh.

# Treasury Drops Plan to Tax Indirectly Part Of Banks' Income From Exempt Securities

## Would Have Prevented Deductions of Expenses—Presents Revenue Plan Tomorrow

BY KENNETH G. KRAMER

Staff Correspondent of The Wall Street Journal

WASHINGTON—Banks and other holders of tax-exempt securities have been given a reprieve from a Treasury proposal which would have added to their tax burdens considerably.

Had the plan survived and gained congressional approval, deductions of "tax-exempt expense" would no longer be allowed as deductions from taxable income.

It was learned yesterday that the proposal has been laid aside by the Treasury Department and will not be a part of the 1942 war tax program, which will be presented to Congress tomorrow.

For some time, however, the plan was under active study by Treasury tax officials. It had reached the stage where discussions had been held with representative bankers for the purpose of getting their reactions. Finally, the proposal had been tentatively approved by Secretary Morgenthau. At the last minute, however, it was junked.

### What Treasury Had in Mind

This is what the Treasury tax experts had in mind: A bank derives a portion of its income in the form of interest from tax-exempt securities held in its portfolio. That income is free from taxation. At the same time, the bank receives income from other operations, lending to commercial borrowers, personal loans, discounting negotiable paper, etc.

The revenue code now allows all of the bank's expenses as deductions from its taxable income. The Treasury planned to have the tax changed so that the bank could only apply expenses incurred in obtaining taxable income against that income. Expenses sustained in securing non-taxable income, therefore, would be allocable to the tax-free income.

All expenses sustained in buying, trading, selling, and handling either partially or totally tax-exempt securities would have to be allocated against the tax-exempt income, according to the Treasury viewpoint. Even the bank's expenses in securing deposits which are invested in the tax-exempts would be reckoned as properly allocable to the tax-free income.

Under the proposed plan, allocations might have to be to three income types: Fully taxable, partially taxable, and fully exempt income.

### Effects on Sale of Governments

Why was the plan dropped? Credit for its being scotched goes mainly to W. Randolph

Burgess, president of the National City Bank of New York, and Marriner S. Eccles, chairman of the board of governors of the Federal Reserve System.

When they heard of the proposal, they saw its possible effect on the sale of government securities at a time when billions of dollars of new issues will be floated to finance the war effort. With less than a week before the time that the Treasury was going before Congress with its war tax program, the bankers obtained a conference with Secretary Morgenthau and Randolph Paul, his No. 1 tax adviser.

The Treasury chief, mindful of the gigantic borrowing program he will have to undertake, decided that this is no time to take any action which would imperil that task. He is aware that the banks are going to have to take a good share of the new securities which the Federal Government will offer in the coming months. He has said so publicly.

So the plan for reaching tax-free income by an indirect method died aborning.

### Morgenthau to Go Before House Group

Secretary Morgenthau and Mr. Paul will go before the House Ways and Means Committee tomorrow to present the Administration's proposals for new revenue legislation. Mr. Morgenthau secured President Roosevelt's clearance of the war tax schedules at the White House last Thursday.

Broad outlines of the Administration tax program and the underlying principles which dictated its drafting will be offered by the Secretary, who will be the first witness. Immediately following him will be Mr. Paul, who will swing into a detailed explanation on the separate phases of the program and present tables showing the effects on taxpayers' income of the new schedules and the revenue yields which they would produce.

The Treasury has formulated an overall plan which is estimated to produce \$7 billion new revenue on an annual basis. Higher rates on corporate incomes have been drawn to yield an estimated \$3 billion. Individual taxpayers will have to ante another \$2 to \$2.5 billion if the Treasury proposals are approved. Plugging loopholes in the revenue code, including a multitude of administrative changes, and sharply increased excises are counted on to produce \$2 billion additional.

At the end of tomorrow's session, the Ways and Means Committee will hold the federal tax hearing in suspense until the following week while it picks up consideration of the Cochran bill dealing with state and local levies on sales to suppliers of the Federal Government.

When the Federal tax hearings resume next Monday, it is expected that Mr. Paul again will take the stand for the purpose of being questioned by committee members. Following completion of the Treasury's testimony, the committee will hear testimony of various classes of taxpayers.

March 2, 1942  
2:57 p.m.

HMJr: Gene?

Eugene  
Duffield: Yeah.

HMJr: I understood it when I talked to you. Now I don't.

D: (Laughs) Well, the only thing I meant to say was that I'm not sure who was in the meeting, but I understood there were some other people there besides the two you mentioned on the phone.

HMJr: Well, there were ourselves and.....

D: Mr. Eccles.

HMJr: That's right.

D: Yeah. And I don't know whether he was or - who talked - whether he was the one or the bankers, but it.....

HMJr: Oh, I got the impression from you that you thought it was the bankers telling somebody.

D: Honestly, Mr. Secretary, I can't tell - I mean, I couldn't tell from the way it came back to us which it was.

HMJr: Well, Gene, when you talk to me, I never talk to anybody in the Treasury about what you tell me.

D: Yeah.

HMJr: I mean, I never discuss it with anybody.

D: Yeah. Well, I was afraid you got the impression that I was sure it was one of those two men. You know, honestly, I can't be sure it was one of those two men.

HMJr: Oh. Well, you've evidently done a little checking.

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- D: No, I haven't. It just occurred to me in thinking about our conversation. I haven't asked about it at all; but from the way it came back to us, it came back with all three names mentioned as having been there and so it might have been the third fellow as well as the first two, you see.
- HMJr: Well, just remember this. When I have a conversation with you, I never tell anybody else at all.
- D: Oh, I know that. I know that. It wasn't that that prompted me to call back; but I just wasn't sure at all who it was.
- HMJr: Well, Gene, while I've got you on the wire - this is something entirely different - how do you feel, do you think that Nelson's getting anywhere?
- D: I am told - of course, I'm not privileged to see these things - but I am told by people who do see them that the production figures are very good, which is the end result, anyway, that even through February up until the middle or thereabouts, things looked exceedingly good.
- HMJr: Well, of course, he couldn't get credit for that.
- D: No, I think that's true. I have been a little disappointed with some of the things he's done, and I've told people down there so, and they say, "Well, they think it will get straightened out." Now, whether that will.....
- HMJr: Well, between him and the Army, are they getting anywhere?
- D: I think that's the weak spot.
- HMJr: Well.....
- D: I have on two or three important occasions in connection with the automobile industry, for instance, and - I've forgotten the other one

right offhand - been told that the lag between what WPB plans and what the Army actually contracts for is a very weak spot.

HMJr: Yeah.

D: That in the problem of converting the automobile industry, the great problem is to try to find out to convert it to what.

HMJr: Yeah.

D: To find out what the War Department and the Navy people want from them.

HMJr: I see.

D: And as long as he lacks the authority to, not only to do the conversion but to say what it shall be converted to.....

HMJr: You mean Nelson lacks it.

D: Yeah. That's right. Or whoever is in his spot. There may be a breakdown at that point, because you can't load them up.

HMJr: Well, I was curious.

D: Well, such people as Bob Nathan, who has usually been quite critical of results down there, has been fairly much impressed by the record in January and February; and if this can keep up, well, all right.

HMJr: Good. Okay.

D: Okay.

HMJr: Thank you.

D: You bet.

March 2, 1942

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The President

Returned to Washington  
in order to get ready for  
my tax hearing Tuesday.  
Thanks very much for  
offer of lift.

H. M. J. V.

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Note: The new material referred to in this meeting appears in the final reading copy. For references to "Appendices B,C,D,E."

March 2, 1942  
3:00 p.m.

TAXES

Present: Mr. Blough  
Mr. Paul  
Mr. Tarleau  
Mr. Kuhn  
Mr. Schwarz  
Mr. Bell  
Mr. Haas  
Mrs. Klotz

H.M.JR: What did you do with Schwarz about having a seminar?

MR. PAUL: We decided to stall until about five-thirty so nothing could be gotten to the San Francisco market. Of course there will be a little period for operation tomorrow morning.

H.M.JR: Well, don't worry, if you gave it to Time, the others have got it too.

MR. PAUL: Have they checked on the figures? They don't know the exact program.

MR. BLOUGH: By the way, they were to check in on figures, too, weren't they?

MR. PAUL: Yes.

MR. BLOUGH: Well, they have not checked on any figures.

MR. PAUL: You see, this isn't going to have a terrible effect on the market because it has been discounted.

(Mr. Kuhn entered the conference.)

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MR. KUHN: Hello, Mr. Secretary.

H.M.JR: Hello, Kuhn. We are waiting for the statement.

MR. KUHN: Well, I have one here with a lot of changes indicated.

H.M.JR: Isn't it all finished, Ferdie?

MR. KUHN: Oh gosh! there are about ten different points here.

H.M.JR: I thought when I came back everything would be finished, and you fellows had carte blanche to go ahead.

MR. BLOUGH: Well, it has been finished every hour since that time.

H.M.JR: Well, I wanted to spend this hour on questions and answers. I didn't want to spend it on that statement. I am very much disappointed.

MR. KUHN: Well, the changes are here, marked with a clip.

H.M.JR: Well, I didn't want to fuss with a statement. I gave you every chance in the world.

MR. KUHN: I don't think there is anything to fuss with.

MR. PAUL: If you wanted to discuss questions and answers--

H.M.JR: Well, I have got to look at the thing.

MR. BLOUGH: If there was a carbon copy--

MR. KUHN: No.

H.M.JR: Gee, I went away Friday, and I said, "Here,

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you fellows finish it up."

MR. PAUL: Well, if you have just got an idea - we just got an idea about ten minutes ago.

MR. BLOUGH: It seemed better to put it in than to leave it out.

H.M.JR: My thought was it would all be finished at five thirty and have the newspapermen there to explain it, but I won't be ready.

MR. KUHN: That is what we tried to do.

MR. BLOUGH: Well, with a little luck--

MR. KUHN: He says it can't.

MR. PAUL: We can have them later, then. We had better tell Chick.

H.M.JR: You had better call Chick. He has told them, hasn't he?

MR. PAUL: What time do you think it can be ready?

MR. KUHN: I would have to find out. It depends on when they can get the copies ready.

H.M.JR: Let Chick come down.

MR. KUHN: That section that I read you on the phone, Mr. Secretary, is in that copy, about the exemptions.

H.M.JR: Where is it?

MR. KUHN: I would like you to see it before it goes out. It begins here.

H.M.JR: Is that new?

MR. KUHN: Yes, that was new.

MR. PAUL: There is a change just suggested by Mr. Bell that we took out. We got Harry White's suggestion Sunday afternoon - Sunday morning.

(Mr. Schwarz entered the conference.)

H.M.JR: Chick, have you told the boys five-thirty?

MR. SCHWARZ: Five, I have told them.

H.M.JR: Well, the statement isn't even printed yet. It isn't even approved. I am just getting it now with all these changes.

MR. SCHWARZ: I figured probably Randolph could read them parts of it and then let them ask questions even though we don't have copies.

MR. PAUL: I think we can do that.

H.M.JR: You have told them at five?

MR. SCHWARZ: I have asked them to come in at five.

H.M.JR: I didn't think we would ask Randolph to do that because he has got his own stuff.

MR. PAUL: Well, I told Surrey to explain the more technical ones in mine. He is perfectly willing to do that. I am perfectly willing to run through yours if you want me to.

H.M.JR: Well, I thought it would be a great advantage to the press to get this.

MR. PAUL: I agree with you completely.

MR. SCHWARZ: Well, it will help our effort if they understand it more intelligently.

H.M.JR: Well, I am not going to worry at all about the mechanics. If it is five o'clock, I am going to let somebody else worry.

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MR. SCHWARZ: You are still planning to see them at four?

H.M.JR: Yes, but I am not going to talk about taxes. You have invited them in? Just our boys or anybody?

MR. SCHWARZ: Just regular correspondents. I didn't want any - those who have come here at least some time.

H.M.JR: Well, I am not going to worry.

MR. PAUL: We can take care of that.

H.M.JR: Now, are you going to say anything about, now that we know how much the direct and indirect taxes are - have you got that thing out yet?

MR. BLOUGH: Well, I dictated it over the phone.

MR. KUHN: When you go into your statement, Mr. Secretary--

H.M.JR: But I want to begin to collect this stuff so I have it. I can't wait for everything until the last minute.

MR. BLOUGH: Have you got a carbon?

MR. PAUL: I haven't got a carbon here, Roy.

H.M.JR: Well now, supposing they question me. How do you make up the hundred and thirty-three dollars and eighty-seven cents. Who is prepared to explain that?

MR. BLOUGH: You can either explain it, or I will give you a little table which shows the breakdown.

H.M.JR: I would like the table.

MR. BLOUGH: In as much detail as you like.

H.M.JR: I would like the table.

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MR. PAUL: That includes the state sales tax--

MR. BLOUGH: Federal, state, and local.

H.M.JR: When will I get that?

MR. BLOUGH: In how much detail do you want it? We have got a whole page full of figures like that that make up this grand total.

H.M.JR: Well, give me the page full, and I can have it - I would like to have whatever they say put in the record. I can say, "Here are some of the things that go into it."

MR. PAUL: It varies in percentage, whether a person is married or single.

MR. BLOUGH: Well, the lower it is the greater it is, proportionally. It is the lower levels.

MR. PAUL: No, it is the other way around. It is a hundred and thirty-four against seven fifty.

MR. BLOUGH: Yes, and two fifty--

H.M.JR: Well, roy, so as not to get Paul and me and you all mixed up on the thing, you and I can be here together at eight-thirty tomorrow morning.

MR. BLOUGH: Sure.

H.M.JR: You and I will be here and I will drill myself with you at eight-thirty.

MR. BLOUGH: I have two or three details - as much detail as you would like to have.

H.M.JR: Well, let's have it. You (Paul) be working on your own, and I will be working on mine.

MR. PAUL: All right.

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H.M.JR: Can I have my six percent statement then at eight-thirty?

MR. BLOUGH: Yes. Now, I am wondering--

H.M.JR: You (Paul) explain to him the way we agreed on it.

MR. PAUL: I talked with the Secretary at noon at lunch on that, and he said what he had in mind was that the tax should be imposed in lieu of all other corporate taxes which would take away from corporations everything above six percent on invested capital, and he did not mean to superimpose that tax on the present structure, in which case his present program is about five hundred million greater.

MR. BLOUGH: Really it is more than that.

MR. PAUL: So he is getting more money by the present program.

H.M.JR: Well, have that for me and--

MR. BLOUGH: Do you want anything - I am sorry, sir.

H.M.JR: ... and have for me the original question which, if asked me - showing how I would answer it.

MR. BLOUGH: Are you interested in any data as to how many corporations would be affected and that sort of thing?

MR. PAUL: Well, I would like to have that before me.

H.M.JR: No, I wouldn't. Let Paul have it.

MR. BLOUGH: All right.

H.M.JR: Is there anything else in here, Ferdie, besides these one-word changes?

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MR. KUHN: Yes, there are some examples of hardships. You asked us to spell that out. We have got three examples in there of the kind of hardship that you would like removed.

H.M.JR: Where do those come in?

MR. KUHN: Those are toward the end. This is where it begins. "Let me give you a few examples of such inequities."

H.M.JR: What do you mean by that, producing--

MR. TARLEAU: You may have electric light bills and all kinds of taxes of that kind that you cannot know because it is not in connection with your trade or business.

MR. PAUL: That is the Higgins Case of disguise, but we didn't want to use that case, because he was a tremendous capitalist. We wanted to turn the principle of that case over to an ordinary citizen. Suppose back in 1934 you deducted the amount of a loan you had made to somebody and that had become worthless at that time and then he recovers financially and he pays you back in 1942. That is income in '42, although you didn't - when you deducted it, you didn't get any tax benefit.

MR. BLOUGH: You may have lost money in '34 on your others.

MR. PAUL: Yes.

H.M.JR: I think rather than give these two or three isolated cases, I would rather give none.

MR. TARLEAU: You would rather give none?

H.M.JR: Yes, I would rather give none than just give these three. They are not important enough.

MR. PAUL: They are just illustrative.

MR. KUHN: I think they add to the clarity, because

you talk of inequities and few people know the kind of thing that you are talking about, and if you give these three examples which are not all inclusive, people at least get the idea.

H.M.JR: Do you think so.

MR. KUHN: I think so, Mr. Secretary. I think it adds greatly.

MR. PAUL: Unless you have some objection, it will be bad, because it throws the order of my statement off, which follows yours right along.

H.M.JR: Well, I just didn't - I just thought somebody threw them in. Do you think it is good?

MR. KUHN: I think it helps.

MR. PAUL: It helps to keep the people from confusing what you mean by inequities and special privileges.

H.M.JR: This isn't your (Kuhn's) handwriting, these checks in here, is it?

MR. KUHN: No.

H.M.JR: Whose is it?

MR. KUHN: Lynch, the boy who is doing the actual mechanical work on it.

H.M.JR: Oh! What was that statement we had at--

MR. KUHN: Oh, it is a million times cheaper to win than to lose? "War is never cheap, but it is a million times cheaper to win than to lose."

H.M.JR: What is the matter with that?

MR. KUHN: Just that you have said it a couple of times.

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H.M.JR: Well, I would rather say it again, or I would prefer it over this. What you have done is paraphrase it; and, if you don't mind my saying it, I don't think it is paraphrased as well.

MR. KUHN: I tried to give an ending that wouldn't sound sanctimonious and preachy.

H.M.JR: What, moochy?

MR. KUHN: Preachy.

H.M.JR: What was that thing I said before?

MR. KUHN: "War is never cheap, but it is a million times cheaper to win than to lose."

H.M.JR: Let's finish it that way. "As I said before - " "Let me repeat." This is too high falutin for me. "Let me repeat," or "As I have said before," or something like that. I like that.

MR. PAUL: It is more in your colloquial strain than the other.

H.M.JR: Yes. As far as I can see, it is O.K.

All right, Chick, that is all.

But you fellows, you will have to handle this thing now.

MR. PAUL: Now, I want to bring up another point--

H.M.JR: Thank you, Chick.

(Mr. Schwarz left the conference.)

MR. PAUL: ... so there is no misunderstanding about it. Have you got that--

H.M.JR: You can go on, Ferdie, and then come back.

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(Mr. Kuhn left the conference.)

H.M.JR: I don't want anybody to think that this is exclusive tomorrow morning, but I don't want to ask people to come at eight-thirty if they have got to testify.

MR. PAUL: We will see how much I get done tonight.

H.M.JR: How are you at eight-thirty in the morning, Tarleau?

MR. TARLEAU: I am fine. I don't know whether I would be more useful in going over details with Randolph or be here to answer any of these questions that you want.

H.M.JR: Well, let's see where we are at five minutes of four.

MR. TARLEAU: That is a good idea.

MR. PAUL: Now, I want this to be made perfectly clear to you.

H.M.JR: Let's see where we are at five minutes of four.

MR. PAUL: All the - practically all the yield statements are in now. You know that yield statements in these times are practically almost - well, they are dignified guesses, and our yield comes to somewhat higher than we had expected. You have said all through your speech, "a minimum." We decided to put a final summary appendix on your statement, that is, refer to a chart like that, somewhat compressed, which would enable the press and anybody to see at a glance, just like we used before the President, somewhat shortened. That figure will be what, Roy?

MR. BLOUGH: Well, it will be somewhere a little above seven and a half billion dollars, finally.

MR. PAUL: It isn't quite as much as the President's

budget message on a collection basis, but it is more than his figure on an annual basis.

Now, I think that is all to the good, don't you?

H.M.JR: That is all right.

Tarleau?

MR. TARLEAU: Yes, sir.

H.M.JR: Is this yours, this paper? I found it amongst my papers.

MR. TARLEAU: Yes, sir.

H.M.JR: That is yours?

MR. TARLEAU: Yes, sir.

H.M.JR: I mean, those weren't the questions and answers for me?

MR. PAUL: It is a copy of mine. I got up some questions I thought they might ask.

H.M.JR: Who is that addressed to, that letter?

MR. TARLEAU: This is a <sup>Cochran</sup> Corcoran letter. I have already talked to him about it.

H.M.JR: Is that addressed to me?

MR. TARLEAU: No, John L. Sullivan.

H.M.JR: Well, somehow or other it got on my desk.

MR. PAUL: I have one figure that you should have generally in mind. I just got this this morning, Roy. The total estimated cost of war industrial plant expansions approved through December 31, 1941, was seven billion three hundred sixty-five million, of which commitments of public funds amounted to slightly over six billion. The

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balance of about one billion three was private expenditures.

H.M.JR: Now, supposing they ask me this question. "Well, Mr. Morgenthau, what arrangement do we make, for instance - supposing the Government gives the Chrysler Company a tank contract. How do they figure their profits? What does the Government allow them?" Now, do we know?

MR. PAUL: Yes, we know the general way. There are two types of contracts. There are fixed-price contracts and cost-plus contracts.

MR. BLOUGH: Cost-plus, fixed-fee.

MR. PAUL: Cost-plus, fixed-fee contracts. Now, I don't know any particular case - in any particular case, which type has been used.

H.M.JR: Oughtn't somebody to be there - do I say something in there against this Vinson plan?

MR. PAUL: Yes.

MR. TARLEAU: Yes, sir.

H.M.JR: Oughtn't somebody to be there representing Forrestal and Patterson?

MR. PAUL: I think it would be a good idea.

H.M.JR: What?

MR. PAUL: I think it would be a good idea, Mr. Hensel and Mr. Neff. We have had a long conference with them, and they know all about that subject.

H.M.JR: Supposing right now I call Patterson and Forrestal up and say, I think somebody should be there and they should report to you?

MR. PAUL: All right, fine.

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(Mr. Kuhn re-entered the conference.)

MR. PAUL: Then we can call on them if we are asked.

H.M.JR: That is the purpose.

MR. PAUL: That is fine.

H.M.JR: Don't you think so?

MR. PAUL: I think it is a swell idea. We can pass that buck to them.

H.M.JR: I don't know. I mean, they will say, "Well, now, why do you think that this thing will take care of the profits?" I mean, why shouldn't we have a separate tax on Army and Navy contracts, a limiting profits tax? That is what it amounts to.

MR. TARLEAU: And that is certainly going to come up.

H.M.JR: Come a little closer, Tarleau.

MR. TARLEAU: I said that is certainly going to come up, because they have been talking so much about it up on the Hill.

H.M.JR: Where is this fellow Merillat?

MR. KUHN: He is in Honolulu.

H.M.JR: What is he doing there?

MR. KUHN: Foreign Funds, isn't he, Tommy?

MR. TARLEAU: Yes.

H.M.JR: Who sent him there.

MR. KUHN: He was doing public relations for Foreign Funds, and Pehle and Bernie sent him there to supervise some of the work.

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H.M.JR: Well, he would be useful right now, wouldn't he?

MR. KUHN: Yes. I have got another boy who doesn't know so much about taxes, but he does his press stuff all right.

H.M.JR: No, I was thinking of somebody who could write a summary for the press of this thing, you see. Merillat could do that.

MR. TARLEAU: We can get somebody.

MR. PAUL: Why don't we put up to the Secretary that other idea you just had?

MR. KUHN: About the table?

MR. PAUL: No, I did put that up. The idea about having Henderson give a press conference.

MR. KUHN: Not a press conference, but a statement on the - after your tax statement is made, the press will go to Congressional leaders and ask for their reactions, and they will all give their reactions, and most of them will probably say, "All of this is too tough; we can't possibly raise so much money; and it will break the bank of business." And you will have editorial writers attacking you on the same score, and if Henderson feels as he does about it, why not get a little statement from him? Why not have Henderson chime in with the others, and say, "Well, this is all right, but my feeling is that it isn't tough enough, and we need a lot more"? Now, I think that would be helpful to the prospects of the bill.

H.M.JR: And then he goes on and says a lot more.

MR. KUHN: Well, we would see the statement before - that is the beauty of asking him to deliver it.

H.M.JR: Well, ask him and Eccles both.

MR. PAUL: All right.

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MR. KUHN: Yes.

MR. PAUL: We will.

H.M.JR: Ask them both.

MR. PAUL: There are the names of the people that saw us from the two Departments.

H.M.JR: I am proud of that map of the world. There is no other map like that in existence. I moved it over, you see - all of the Far Eastern thing is together. I had the thing cut up and rearranged. They all just show - and then they cut it, and I had this rearranged, you see, on the sixtieth longitude. But they all cut it at - well, just the other side of the Burma Road.

MR. KUHN: You may have to shove it over as far as Aden pretty soon.

H.M.JR: No, it is all right. It is just a change.

MR. TARLEAU: Java is a big island, isn't it?

MR. KUHN: Is that the map the President had in front of him or in back of him the other day? It was a great, huge one.

H.M.JR: Well, this is one that they brought over, and I didn't like it, and I had it redone. It is just the way it is stuck together.

Well, O.K. on the Eccles-Henderson thing. How about--

MR. PAUL: How about Smith? I guess he is too dangerous, isn't he?

MR. TARLEAU: Nelson and Smith would be the other people.

H.M.JR: Nelson would be good.

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MR. TARLEAU: Would be the people that others would think about.

H.M.JR: Purcell?

MR. KUHN: I should think the only ones you really need are Henderson and Eccles.

H.M.JR: Well, Nelson would help a lot.

MR. PAUL: Well, will you get in touch with Nelson?

MR. KUHN: Yes, good. Is he taking an interest in tax measures?

H.M.JR: Well, he does as a - I mean, the thing that they will immediately ask is, "This is going to hurt production." It is up to Nelson to say, "No, it won't."

MR. PAUL: Nelson will say that. We have been over the corporate end of it with him.

H.M.JR: Well, if I could have something - well, now you are worried about the six percent stuff. We have got that. You are worried--

MR. PAUL: You might add to your statement there not only that our present program gets more money, but also that it approximates the other and it distributes the load somewhat more equally, perhaps, and justly, over the whole corporate picture in the light of - somewhat in the light of developments since your other statement was made.

H.M.JR: Well, what I would like to have is - who answered the question, and then you remember I said, "Just as a rule of thumb." I will have actually what I said, you see.

MR. BLOUGH: Yes, we will get that. What you did was to give them a general rule of thumb, and then a couple of them began to bore in and got you to--

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H.M.JR: But let me have the original thing. Go back to the original question, and I will simply say, "Well, as a rule of thumb, I would put it this way." I think I ought to have that.

MR. KUHN: Couldn't we bring up that matter of the compulsory savings?

MR. PAUL: Well, I have already talked to some extent to the Secretary about that. That is, I told them that - I told him that - and that letter ought to be over pretty soon. It was on Henderson's desk. Gilbert just called me a few minutes ago while Henderson was at lunch, and the letter is awaiting his signature and was coming over to you this afternoon by messenger.

H.M.JR: Do you know how much we get by bringing in those people?

MR. KUHN: Well, I know that from those people alone we would get only between fifty and a hundred million dollars.

H.M.JR: That is right.

MR. KUHN: Sure.

H.M.JR: So I haven't changed any.

Now, one other thing that I want to get George Haas in on.

MR. PAUL: Well, Henderson is not so much now on the personal exemption point. Henderson is rather on the point that the whole program is two or three billion too short.

H.M.JR: Of what?

MR. PAUL: Of what we need for the inflationary situation.

H.M.JR: Well, have we any statement of what our

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own people figure? I mean, on how much the thing will be and so forth and so on? Have I got that?

MR. BLOUGH: We have the material, never released, which was prepared in this Interdepartmental Committee that you had set up.

H.M.JR: Yes.

MR. BLOUGH: Henderson released some stuff which approximated it. This material, so far as I know, has been kept a deep secret. It may need to have some revision.

H.M.JR: Well, George Haas handles that, doesn't he?

MR. BLOUGH: Yes, he is the one, and as late as this noon, Gerhardt Colm says - I suppose this is still quite confidential - that the War Production Board is asking them to up their expenditure figures for the coming fiscal year, because on re-examination of how much it is going to cost to carry out the President's program, it is higher than their original thought was.

MR. PAUL: I think our answer there has to be that we are entirely open minded and, if subsequent information develops the necessity of more taxes--

(Mr. Haas entered the conference.)

H.M.JR: Listen, George, have you got everything at your finger tips for Papa for tomorrow morning? Sit down. Cost-of-living charts and how much the total national income is going to be, and how much we are going to produce and how much you can buy and what the gap is?

MR. HAAS: That gap one is - but we can make a guess just as well as Henderson. (Laughter)

H.M.JR: Well, you had better--

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MR. HAAS: We have got a figure, but I am not so proud of it.

H.M.JR: What is your figure?

MR. HAAS: Oh, it is--

MR. BLOUGH: You just aren't as sure of yourself as Henderson.

MR. HAAS: That is it.

H.M.JR: Have you got something for me?

MR. HAAS: Yes, sir.

H.M.JR: Where is it? When are you going to begin feeding it to me?

MR. HAAS: I can do it right away. You have got the gap. I sent that in, but you probably--

H.M.JR: On my desk I have got nothing.

MR. HAAS: Well, I could give you a memorandum that lists these different things down on it so you can have it in front of you.

H.M.JR: Well, I mean, supposing they say, "Now, Mr. Morgenthau, how much do you think the national income is going to be for next year?" "Well, Jesse Jones says a hundred and thirteen billion dollars." "And how much are you going to produce, and the gap, and all that?" I want to turn to George and say, "George, give it to me."

MR. HAAS: I will have it.

(The Secretary held a telephone conversation with Mr. Forrestal as follows:)

March 2, 1942  
3:35 p.m.

HMJr: Hello.

James V.  
Forrestal: Yes, Henry.

HMJr: Jim.

F: Yeah.

HMJr: How are you?

F: Okay.

HMJr: I'm testifying on a tax bill tomorrow, and they may ask for some things about what kind of contracts you and War write, and I'm asking you and the War Department whether you couldn't have somebody up there who could sit next to Paul and me and could answer the questions if they get down to the question of contracts.

F: Yes. The types of contracts and so forth.

HMJr: Yeah. And they say, "Well" - I, mean - you see, I'm coming out in favor of only one kind of a tax, you see?

F: Yeah.

HMJr: And supposing they say, "Well, we think we ought to have a limiting factor of six, seven, eight per cent on contracts."

F: Yeah.

HMJr: And then they'd say, "Well, Mr. Morgenthau, what kind of contracts are the Navy writing?" Well, I don't know; my people don't know.

F: Right.

HMJr: I mean, costs, plus, and so forth. Just - not to get into policy, but just have somebody there who would know the facts.

F: I'll do that. I'll do two things. I'll have

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somebody there, and also he'll have an abstract which I had made for myself, as a matter of fact, of all the types in about one paragraph.

HMJr: Who would that be?

F: Either Detmar or Hensel.

HMJr: Well, would he report to Randolph Paul?

F: Yeah.

HMJr: And be up there - Ways and Means - at nine tomorrow?

F: Right.

HMJr: I mean, I think it would be helpful to everybody if the man who knew it was there, rather than letting us guess at it.

F: I think it's much better.

HMJr: Right.

F: Yeah.

HMJr: Okay.

F: All right, Henry. Fine.

HMJr: Thank you.

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H.M.JR: He said Hensel or somebody else.

MR. TARLEAU: Yes, it will be Hensel.

H.M.JR: Or somebody else.

MR. PAUL: It will be Hensel.

H.M.JR: He said he has had the thing briefed for himself. Now, George, you have got to be on your toes tomorrow morning. I mean, I take it that you are ready, and don't - if your guess is just as good as Mr. Leon Henderson's--

MR. HAAS: I will say it just like Kiplinger would say it.

H.M.JR: What is that?

MR. HAAS: He speaks like God when he gets a statement.

H.M.JR: Who does?

MR. HAAS: Kiplinger.

H.M.JR: You have been hiding this gap thing from me. What do you figure the gap is?

MR. HAAS: Somewhere between eleven and fifteen; and if it isn't closed, it will be a lot more, or partially so.

H.M.JR: Well, do you think we should do more through taxes?

MR. HAAS: That is where I would be on that side, I think.

H.M.JR: Well, I ain't. I seem to be against-- differing from everybody.

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MR. HAAS: Either there, Mr. Secretary--

MR. PAUL: I think we must have taxes do this whole job.

H.M.JR: That is the point.

MR. HAAS: I stated in a memorandum to you, Mr. Secretary, in connection with the gap - and I would be inclined to prepare some preferences--

(Mr. Bell enters the Conference.)

MR. HAAS: ... that Henderson's rationing has to be greatly extended or the purchasing power has to be absorbed to a greater extent, and taxes have to be increased, or compulsory savings or voluntaries.

H.M.JR: When do I get those jewels of wisdom from you?

MR. HAAS: I sent them in here. You were probably so busy on something else that you missed it.

H.M.JR: When?

MR. HAAS: Oh, a couple of weeks ago.

H.M.JR: Oh, hell, that is a lifetime ago.

MR. HAAS: You mean that statement you made?

MR. BELL: I thought he used it in the Baltimore speech.

MR. HAAS: Oh no, that was just that schedule, but not the gap. I was speaking of the progress report on the gap work.

H.M.JR: Well, when can I get it?

MR. HAAS: Why, I think you already have got it around here somewhere.

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H.M. JR: Well, when can I get it again? Could I have it to study after supper tonight?

MR. HAAS: Yes, I will get a copy and send it out to your house.

H.M. JR: Tonight?

MR. HAAS: Yes. It is one or the other. Either Henderson has got to do a very extensive job in rationing or there has to be more saving, whether compulsory or voluntary--

MR. PAUL: That is Henderson's position, the tougher the taxes, the less rationing.

H.M. JR: Well, I would like Mr. Roosevelt - if he goes up to Hyde Park - that you can buy any damn thing that you want with the exception - the only thing that isn't rationing, because you can't buy it at all, is tires. And each store there does its own. Now, for instance, I asked - there is a farmer's wife comes in and looks after things. I said, "What do you do about sugar?" She said, "Every time I go to the store I get two pounds." I said, "Is that once a week?" She said, "No, I can go once a day."

MR. BELL: That is the reason there is a shortage of sugar.

H.M. JR: She said, "I go once a day."

MR. PAUL: I have a neighbor in New York who rented an extra apartment across the hall from us for no other purpose than to store shortages.

H.M. JR: I know somebody's chauffeur that has a hundred pounds of sugar, but why should we try to do the thing? Now, on the other hand, eggs, for instance, have begun to drop in the country, and this is early. They don't usually drop until later. You can get the best fresh eggs wholesale for thirty-five cents a dozen, which is reasonable, and the price of butter has begun

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to drop. I don't see why I should slap on another two billion dollars worth of taxes because Henderson can't get out his sugar cards.

MR. BELL: That is the way I feel about it. If they would do their job over there, there wouldn't be so much reason for all this, but he is trying to get you to do his job; and I am afraid if there is inflation, that they are going to lay it on to the fiscal authorities.

MR. HAAS: That is right.

MR. BELL: That is what is going to happen.

H.M.JR: Well, I am just wondering - I want my facts, George - I am just wondering whether I had better not maybe throw my weight around a little bit. Henderson never worries about throwing his weight around. I saw your chart on food, George, and it has gone up forty percent, food.

MR. HAAS: That is right. All farm prices, sixty-seven.

MR. BELL: They shift their position so much.

H.M.JR: They get the jitters, Dan.

MR. BELL: That is right, they get the jitters.

MR. BLOUGH: I wonder if this letter isn't a method of trying to protect Henderson in the future.

MR. BELL: Sure.

MR. BLOUGH: By saying, "Well, I told the Secretary of the Treasury that he didn't ask for enough, wasn't asking for enough."

H.M.JR: Well then, you fellows have got to think of some way of protecting me by my coming back and saying, "Well, the only thing that is rationed, it isn't a question

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of more or less rationing, is tires, and you can't get any more of those so that isn't rationing."

MR. KEAS: What you have to do, Mr. Secretary, you can neutralize this purchasing power by rationing, and the British have done that to a great extent.

H.M.JR: I think they should. I think it is outrageous. You talk about your apartment. Was it your (Kuhn's) wife told me that the woman ahead of her bought forty dollars worth of soap? Well, somebody did. She was waiting in line at a store where she was buying, and she had to wait and wait while this woman bought forty dollars worth of soap, and that is going on all the time. Now, it is like - evidently, you can't - people don't know how to store eggs and, therefore, they haven't been able to hoard them, and now they are beginning to come down.

MR. KUMEN: Do you remember Henderson's statement at John's house that night, that if we only could sell four hundred million dollars of "E" Bonds every month, there wouldn't be any danger of price rises until well into the year?

H.M.JR: Well, I sell my apples to the man that buys - I can't remember, in carloads, but he buys an amazing amount of vegetables for the Atlantic and Pacific. I mean, their figures always - I said to him, "Mr. Boyce, what is the matter with the price of apples anyway? Why don't apples go up?" He said, "I will tell you why apples don't go up, and citrus fruits haven't gone up. The people have stocked so much canned fruit that they don't buy apples and citrus fruits, so your apples and oranges - and now they find there is no particular necessity, so they are eating the stuff they have got stored, and they don't buy the fresh stuff." (Laughter.) And this is the biggest buyer in the country of fruits and vegetables, I mean this one man. He is the biggest buyer. And he says they are eating the stuff they bought. Do you think I am crazy on this stuff? I mean, that Henderson should stampede me into this thing.

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MR. BELL: No, sir, I don't think that you should be stampeded. I think maybe we are on the verge of inflationary prices, but I think he ought to do his job. He has had since September to lay down a program while Congress was debating this thing, and now they fool around over there months, and they haven't got their sugar rationing cards out yet.

MR. BLOUGH: That was largely on his people's recommendation that - I mean, we have looked at this quite from their point of view, and they suddenly shifted very drastically.

MR. BELL: As I recall, they thought seven billion was a little too much.

MR. HAAS: Oh, they argued strongly against it.

H.M.JR: Oh, did they?

MR. BELL: Yes, I thought Gilbert--

MR. PAUL: In an early conference they said five billion would be enough. They said that in my office, but later they changed. We can't say they didn't change from that point of view. They said the seven was all right.

MR. BLOUGH It is a little hard to be the cracker on the end of the whip.

MR. BELL: When we had our conference, George, they thought the eleven billion dollar gap was too large, and five and a half would be ample.

MR. PAUL: What was that conference over in your office which was not attended by me in which Gilbert got the jitters?

MR. BELL: When was it?

MR. PAUL: What was the conclusion there?

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MR. BELL: George's figures show an eleven billion dollar gap, and Gilbert said that it was too high, that five and a half billion dollars was about the gap that he had figured out.

MR. HAAS: Then Leon came out with eleven to fifteen.

MR. BELL: But he did say that we are right on the verge of inflation, and the fiscal authorities ought to do something about it, and if the fiscal authorities took prompt and drastic action that that would make their job that much easier and simpler to sell to the American people.

(Mrs. Klotz entered the conference)

H.M.JR: Well, I don't see - Leon Henderson has gotten an attack of jitters. He is writing a letter to make a record. Why I should suddenly change my testimony all of a sudden just because he is nervous. One minute he thinks we are asking for too much, and the next minute he thinks we are not asking for enough. I think we will just stick along as we are.

MR. KUHN: Well, you said in your statement that you regard that seven billion as a minimum at the very least, and I think that is a safe position to take.

MR. HAAS: Well, you are going along with the Budget. That is a Budget figure.

MR. BELL: But he says it is a minimum.

H.M.JR: I want that statement tonight to read.

MR. KUHN: Sure.

H.M.JR: Will I have it?

MR. KUN: Certainly.

H.M.JR: Guaranteed?

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MR. KUHN: Guaranteed. You must have it.

H.M.JR: That is it. Thank you.

MR. PAUL: I think we have to be careful here that we don't have a public disagreement. We are all pretty close together.

H.M.JR: Yes, but supposing he writes me a letter now and puts me on the spot.

MR. PAUL: Well, that is a different matter. You can reply and keep the record clear.

H.M.JR: How? Look, I will promise you this, see. I will not throw my weight around first; but if they do, Eccles and Henderson, Papa is going to throw his weight around the way he has never done it before. Now, I mean I have been through I don't know how many tax bills, eight or nine, and I am willing to give one small - have faith in angels; but if these fellows begin to talk, I will begin to do the same thing.

MR. PAUL: Well, why can't you get that interview, Ferdie, that you--

H.M.JR: That is fair enough, but I keep my word. Did you see the Wall Street Journal, about the meeting we had here with Eccles and Stonier and Burgess?

MR. BELL: I was just talking to Randolph.

(The Secretary held a telephone conversation with Mr. Patterson.)

March 2, 1942  
3:47 p.m.

HMJr: Hello.

Operator: Under Secretary Patterson.

HMJr: Yes. Hello.

Robert  
Patterson: Henry.

HMJr: Bob.

P: Yes.

HMJr: I asked your friend over in the Navy, Jim  
Forrestal, to do something for me, and I'd  
like to ask you the same.

P: Right.

HMJr: I'm testifying up on the Hill tomorrow at  
ten o'clock; and as you know, I'm coming out  
for only one tax bill as it affects corporations,  
you know.

P: Yeah.

HMJr: No Vinson-Trammell thing.

P: Yeah.

HMJr: Now, they undoubtedly are going to ask us,  
"Well, what kind of contracts does the Army  
write?" And I wondered if you couldn't have  
somebody up there who could answer that  
question - somebody like Neff.

P: Yes.

HMJr: I mean - not get into policy. Simply say,  
well, if you write a tank contract, what kind  
of a contract is it, you see.

P: Yes.

HMJr: I mean the cost provisions.

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P: Yes. I think General Schulz is the best one.

HMJr: Well, I don't - anybody - just so somebody could be there and sit alongside of Randolph Paul who would know.

P: Yes.

HMJr: If Schulz is the man, okay.

P: I'll have someone.

HMJr: Don't you think it's.....

P: Shall I have him get in touch with Paul?

HMJr: Oh, if he'd just come up to Ways and Means tomorrow at ten o'clock.

P: Well, hadn't he better get in touch with Randolph Paul before?

HMJr: Yeah. Randolph's sitting here now. He'll be out of here by four o'clock.

P: Yeah. I'll do that.

HMJr: Don't you think it would be good?

P: Very good.

HMJr: What?

P: Yes, indeed.

HMJr: Because we don't know, and I'm coming out in this statement, you see, against any special taxes; and then if they corner me, "Well, what kind of a contract does the Army write?" I don't know, and no one else around here knows.

P: Yeah. It's against any price limitations and any profit limitations and so on.

HMJr: That's what we're for.

P: I am, soo, surely.

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HMJr: And so - well, they'll undoubtedly come back and say, "Well, how do you feel about this kind of a contract the Army's written?"

P: Yeah.

HMJr: And I'll have to say, "Well, I don't know."

P: Yeah.

HMJr: So your General can stand up and click his heels and say, "Teacher, I know."

P: Yeah.

HMJr: Okay?

P: Right.

HMJr: Thank you.

P: I'll have him get in touch with Schulz - or with Paul.

HMJr: Okay.

P: Right.

HMJr: Thank you.

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H.M.JR: Schulz is no good?

MR. TARLEAU: He knows all about the Vinson-Trammell Act anyway. We had our arguments with him in the old days.

H.M.JR: He is for it or against it?

MR. TARLEAU: He is very much against it, so I think he is sending up a good representative. (Laughter.)

H.M.JR: Now, George is going to have at the house for me the stuff which he said he sent me two weeks ago, and evidently I didn't read. How long was it, George?

MR. HAAS: About two pages.

H.M.JR: And Mr. McKuhn is going to have my own statement.

MR. KUHN: A reading copy.

H.M.JR: By eight thirty?

MR. KUHN: Yes.

H.M.JR: Now, Mr. Bell, are we going to get on to the question of debt?

MR. BELL: I hope so.

H.M.JR: Have you got my statement?

MR. PAUL: I have got a fairly long statement, Dan.

MR. BELL: In five minutes it will be ready.

H.M.JR: It is good you weren't here earlier, Mrs. Klots. These boys--

MR. BELL: It is probably finished now.

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H.M.JR: There were only ten places I had to read in the copy I got. Nine or eleven?

MR. PAUL: Well, you wouldn't want us to have a statute of limitations on ideas, would you?

H.M.JR: Yes. (Laughter.)

MR. PAUL: The only one we recognize is tomorrow morning.

MR. BELL: Is this going to be released tonight?

MR. KUHN: Well, the press will be told what is in it. I don't think they can have copies.

H.M.JR: On the debt thing?

MR. KUHN: Oh, on the debt thing?

MR. BELL: No, I mean on the tax.

H.M.JR: Sort of a seminar, like the budget. What about my debt thing?

MR. BELL: It is all ready. Do you want it now?

H.M.JR: Yes.

MR. BELL: Or do you want it up at the house? I will get it for you right now. It is ready. I am not kidding you. The girls are on the last three or four pages.

H.M.JR: No, I would like it right now. No, sit down, Dan.

MRS. KLOTZ: He is calling your bluff. (Laughter.)

H.M.JR: I don't really want it now.

MR. BELL: Yes, it has been ready since--

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H.M.JR: I don't want to show up the tax boys.

MR. HAAS: There is one other thing, Mr. Secretary, that you - I would like to be sure you are informed about. You know, you asked me to look and see if there is any place in the Government on this income? Well now, there is today.

H.M.JR: Is there?

MR. HAAS: You had the hunch about Agriculture. This woman, she was over in Agriculture and has been loaned to Henderson, and she has just completed, just this morning. I have gotten it, a whole set of tables which show by income classes what the--

MR. PAUL: Yes, but those are not the final studies, George.

MR. HAAS: No, but--

MR. PAUL: They are still in the field on that study.

MR. HAAS: Oh, no, this is a different one.

H.M.JR: Now, wait a minute, does this show what a family - how they spend their thirty dollars a month or twenty dollars a week, whatever they get?

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MR. HAAS: It shows this, it shows that they - take a family that is earning from seven hundred fifty to a thousand dollars a year. They went lower than that. They went to five hundred. This will show how much was spent for consumers' goods, how much went into taxes, and gifts, and how much was saved.

H.M.JR: As of when?

MR. HAAS: They have that both for the calendar year '41 and an estimate for the calendar year '42.

H.M.JR: Well, an estimate is no good.

MR. HAAS: They are obviously - I admire anybody who will sit down and make those estimates, because they are obviously really - I mean, they are rough estimates.

H.M.JR: But is the '41 - are they actual cases of families or are they again estimates like this fellow Friedman?

MR. HAAS: They must be estimates.

H.M.JR: Then I can make the statement - I make this statement--

MR. HAAS: They are probably the best informed guess there is around town because the woman is very capable.

H.M.JR: Now, I make this statement, that there is no place in the Government in Washington in the calendar year '42 that can tell me from an actual case - cases, where they went and pressed the button and visited the family, how that family is using its money, in this calendar year.

MR. PAUL: That is a study that is underway.

H.M.JR: Now, I understood--

MR. HAAS: That is in your written statement?

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MR. BLCUGH: No.

H.M.JR: No. I understood that Henderson was out in the field examining a thousand married families and five hundred single families--

MR. HAAS: Well, he is not doing it, but B. L. S. is doing it, and we are helping them out, too. Henderson is just a party to it like we are.

H.M.JR: But they are actually examining?

MR. HAAS: They haven't started yet. They are getting ready.

H.M.JR: Well, George, if I get cornered on this question of sales tax and what the savings are and somebody says they are spending a lot of money for silk shirts, can I make the statement that nobody in the Government knows?

MR. HAAS: No, because this woman thinks she does. She has it by fifteen categories, household furnishings and everything else.

H.M.JR: But George, she doesn't know. I mean, she hasn't actually gone into the families, has she?

MR. BELL: Why don't you give it for whatever it is worth?

MR. HAAS: She based it on some older studies and so on, but as to actual '41 they have not sent a questionnaire or interviewed individual families.

H.M.JR: What do you call it, case studies? That is what they call a social worker, don't they? Case studies, isn't that what they call it?

MR. HAAS: No, sir, it is not built up on that. They intend to use these case studies to later check the validity of these estimates, but they wanted the case studies to work on.

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H.M.JR: Well, as far as I am concerned I think they are no good.

MR. BELL: Well, I would give them for what they are worth.

H.M.JR: Have you got them?

MR. HAAS: Yes, sir.

H.M.JR: Can they go to the house tonight?

MR. HAAS: Yes, sir.

MR. PAUL: Is this a summary of those, George?

MR. HAAS: No. They just came over this morning.

MR. BELL: I would give the '41 figures. I wouldn't give the '42 estimates. I think that would look funny.

MR. BLOUGH: Can they be given out to the public?

MR. HAAS: I don't know. Shapiro brought them over, and he said they are going to be published. They haven't done it yet.

H.M.JR: Well, I am thinking about if I get - the purpose of this meeting is if I get pushed around.

MR. HAAS: It checks one idea you had, that there isn't very much down in that very low part, in the seven hundred and fifty and under.

H.M.JR: Are they so that I can understand them, George?

MR. HAAS: Well, they don't stand out sharply. I was fixing a few more tables, rearranging them a bit, to send in to you this afternoon, and I can have those ready.

H.M.JR: Would you mind coming to the house tonight

at eight-thirty?

MR. HAAS: I will be glad to.

H.M.JR: With those two things.

MR. HAAS: I will be glad to.

H.M.JR: I won't keep you more than a half hour.

MR. HAAS: I will be glad to.

H.M.JR: Supposing you do, because if I don't - I can get it so much better if it is explained. I can absorb that and do Roy tomorrow, and then as far as yours, Paul, don't you think you had better - I mean, you are invited, but I don't want to get you here. Roy and I can go over it.

MR. PAUL: I don't think I need to be here.

H.M.JR: What about Tarleau?

MR. PAUL: I think Tarleau might go over some things with me, perhaps have dinner with me.

MR. TARLEAU: Yes, go over your statement.

H.M.JR: Then just you (Blough) be here in the morning.

MR. BLOUGH: All right.

H.M.JR: Now, when are you (Bell) going to pump that debt thing into my head?

MR. BELL: Any time you want. Right after this if you are ready.

H.M.JR: You big, brave boy. I will tell you what we will do, you and I. While this fellow (Paul) is on the stand, see, then I will take the debt thing, and we will go some place and get a room and simply go into

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Doughton's room and sit down and say, "When you are ready send for me."

How long will it take you (Paul) to do your stuff?

MR. TARLEAU: It will take between an hour and an hour and a half.

H.M.JR: Well, that gives you ample time, doesn't it.

MR. BELL: Yes, I should think so.

MR. PAUL: We have got a fairly complete statement. We think that taxpayers have that coming to them. We owe it to the taxpayers.

H.M.JR: Well, I am not crazy to - I am not going to - I don't think they will get to me tomorrow on the debt thing, but I think with all this stuff that I am getting, I think if I try to assimilate what George can give me tonight and read my statement tonight and be here at eight-thirty tomorrow morning and meet Blough, that is about all I can do.

MRS. KLOTZ: That is enough.

MR. PAUL: Do you approve of all the changes that we have, some of which you don't know in detail about? I mean, we have got a lot of detailed changes - (Laughter) they are all loopholes.

H.M.JR: I will tell you what has happened. Bishop Shiels is coming in at four-thirty, and I will ask him to give it his blessing. (Laughter) Is that sacrilegious, George?

MR. HAAS: I shouldn't think so. I don't know whether Paul will take a chance on it.

H.M.JR: Anyway, it isn't meant to be sacrilegious. That is a fine thing for you to throw in my face.

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MR. BELL: I loved the way he said it.

MR. PAUL: We have gone ahead and haven't bothered you with every technical change.

H.M.JR: Well, you have still got little pet things and a few little odds and ends. Have you changed anything I said at Cleveland on those big loopholes?

MR. PAUL: No.

H.M.JR: No.

H.M.JR: Have you still got the community property and joint returns and depletion and states and municipals.

MR. PAUL: That is right.

H.M.JR: And then on the corporations you tell me it is fifty-five and so forth.

MR. PAUL: Consolidated returns on corporations.

H.M.JR: And individuals is about the way I said it?

MR. PAUL: Oh, yes. The only thing is that there are a number of loopholes. There isn't any use trying to give them--

H.M.JR: Listen, I heard there were sixty.

MR. PAUL: Well, we are not giving sixty, but there are probably a hundred.

MR. KUHN: We put examples in on the individuals.

H.M.JR: Well, I will save Bishop Shields the embarrassment. I will give it my blessing.

MR. BELL: Don't you expect to have to answer questions after your statement, or are you going to let Paul go on and then be questioned?

H.M.JR: Have you ever seen a man at the sixty yard starting line when they cracked the gun, how fast he can get away? That is me. (Laughter)

MR. BELL: That is the object of this private room, is it?

H.M.JR: That is me. No, what I am going to do is, they will ask me questions, but I will have a little talk with Doughton before, and say, "Now, look, Bob, please steer the questions to my staff." Naturally, I expect some, and I will do the way I always do. If I feel I have got to answer it, we will go into a little huddle, and if I can't answer it, I will just call on Mr. Paul, and if he can't answer it, he will call on Blough, and if Blough can't answer it, he will call on - I don't know who.

MR. KUHN: Kuhn.

H.M.JR: McKuhn. (Laughter)

Whatever you have got, I will take it sight unseen.

MRS. KLOTZ: Do I hear the press?

MR. TARLEAU: Yes, you have your press coming in.

MR. KUHN: Mr. Secretary, we have got the February figures on Savings Bonds which Chick will bring you for the press conference.

MR. BELL: Seven hundred million?

MR. KUHN: Seven hundred three.

H.M.JR: How am I going to explain they are not so good?

MR. KUHN: The limit buying in January. They are not bad.

H.M.JR: Chick can bring it. The E Bonds are only

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two million dollars from the four hundred figure that we were shooting at sometime ago.

MR. BELL: Hit it right on the head.

MR. KUHN: Three hundred ninety-eight.

MR. BELL: The estimate was seven hundred million in the cash position statement.

H.M.JR: What is our estimate, seven hundred million?

MR. HAAS: Yes.

H.M.JR: Then why not say that?

MR. BELL: We can say our estimate in our cash position statement is seven hundred million.

H.M.JR: And we got how much?

MR. BELL: Seven hundred three.

MR. KUHN: They are not bad figures.

MR. BELL: That is good.

H.M.JR: I am glad you are so cocky, Dan. What did you do, win at golf or something?

MR. BELL: No, I quit golf. It is too much effort.

H.M.JR: All right.

Mar 2 1942

My Dear Madam Secretary:

In connection with the efforts of the Treasury Department to foster widespread adoption of the payroll allotment plan for purchase of defense obligations, there was submitted to a State Administrator of the Defense Savings Staff a plan differing from the usual proposal in that the employer proposes to pay a bonus in Defense obligations to encourage employee participation. A copy of the letter from the Walker-Smith Company of Brownwood, Texas, submitting the plan is attached.

You will note that the Company is concerned with the possibility that the bonus proposed to be paid will be construed to be regular pay and thereby so increase the rate of overtime compensation that the adoption of the bonus plan will be impracticable. A recent Wage and Hour Division release, W-1548(a) provides that if a particular payment is a gift or gratuity it need not be included in the computation of regular pay. From an analysis of the proposal in the attached letter it seems the Company plans a gift of Defense obligations in a bona fide attempt to further national defense.

It is gratifying to us in the Treasury Department, as it must be to all the citizens, to observe such wholehearted response to efforts to secure the full assistance of the people through defense savings. Naturally, however, the Treasury does not want such cooperation to be a source of penalty to the employers, either in the form of increased labor costs or otherwise. Before the Company

- 2 -

can go forward with its plan it feels there must be clarification of the status of the bonus proposed. Determination of this question is necessary to secure full cooperation of this Company and its employees in the efforts of the Department to arrange the financing of the war program. I feel the importance of this question to the financing program is apparent. As a consequence, the early disposition of the question involved by the officers in your Department will be greatly appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.]

Secretary of the Treasury.

The Honorable

The Secretary of Labor.

*H.M.C.*

By Messenger *Higgins*

*5:10*

*File to Thompson*

COPI

## WALKER-SMITH COMPANY

Brownwood, Texas

December 27, 1941

Mr. Frank Scofield  
 State Administrator - Treasury Department  
 Defense Savings Staff  
 Austin, Texas

Dear Sir:

We have just received your general bulletin of December 17th with which you enclosed Pay-Roll Allotment Plan as applied to The Defense Savings Program. Acting on the excellent suggestion offered, we are trying our best to work out a proposition that will not be too expensive to the company and yet one which will offer to employees inducements sufficient to warrant their making sacrifices in the purchase of as many defense stamps and bonds as possible. However, we are confronted with a little problem in connection with it.

We are paying our employees good salaries, -- better than those paid by the average firm. We throw to them every advantage that is humanly possible in order that they may prosper. Many of them are eager to work overtime and push their earnings up as much as possible, and, because there is some scarcity of labor of the type we need, we have given them this privilege in a large number of instances. Of course, these overtime hours bring time and a half pay, which brings our cost up considerably.

Now, in keeping with the suggestions made in your letter, in order to work out a plan that will aid just as much as possible and yet not bring to ourselves a penalty that will knock the whole thing out, we thought to work out a plan something like the following example:

For instance, "A" makes a salary of \$150.00 per month. We say to him and to other similarly paid employees, "While you are making good money, do the frugal and wise thing, -- invest your savings to the extent of your ability in defense stamps and bonds. Give us instructions to deduct, each month, 25% of your earnings and permit us to invest it in these stamps and bonds for you. When the sum total of all of these stamps and bonds has reached a given amount, we will add as a bonus a like amount on a named pro rata basis for each class of employee, investing that sum in defense stamps and bonds which will be allocated to all employees in keeping with the deposits and investments authorized by them for their account.

December 27, 1941

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In addition to that, in order to encourage you as an employee to invest as much as you possibly can in these securities, we will add to your account an amount of interest equal to the sum necessary to bring you interest up to 3% on the stamps until they are converted into bonds, thereby giving you interest income until such time as conversion can be made. Under this plan, neither of us can know when a bonus will be paid, nor how much, but each employee is guaranteed 3% interest on his deposits until such conversion is made and the bonus payment in stamps or bonds is issued down the line somewhere".

The plan, of course, will be so arranged to permit a larger ultimate payment in stamps or bonds as a bonus to the lower class employee based on his own investments, the sacrifice on his part being heavier than on the part of the better paid class of employee.

In this manner, we feel that we could afford to make a sacrifice in the way of donating a bonus equal to or greater than the deposit of the lower paid class of employee and somewhat less than that on a prorated basis to the better paid class, but in all instances encouraging each class to save to the extent of their ability and invest such savings regularly in defense stamps and bonds, the interest arrangement being to the end that they will be assured of interest income until the conversion into bonds can be made.

Of course, in actual practice, as fast as these savings come in, they will be invested in defense stamps in a bulk fund equal to the total deposits, and held in our lock boxes, such purchases being made perhaps weekly but allocation to the many employees being made perhaps quarterly or maybe semi-annually or otherwise.

We feel this plan, while perhaps unique, will serve four general purposes. First, it will increase savings from the regular salaries of employees, next, it will increase their investment in defense stamps and bonds to the largest possible extent -- certainly far more than would be the case on a voluntary basis. Third, it will encourage this group of employees to get the habit of investing their savings in defense stamps and bonds. Next, the plan will require that they permit their investments in these stamps and bonds to remain for a given length of time (perhaps a year or more) in order that they may share in any distributed bonus, the bonds not being resold or discounted in any way.

It is our belief that such a plan will amply reward employees for their sacrifice in investing in these stamps and bonds. Under the arrangement, the amount of bonus payments in stamps and bonds will be unknown to the employee and the time of payment uncertain, same representing

Mr. Frank Scofield

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December 27, 1941

a reward not for services rendered primarily, but in a large measure for sacrifice which such employee would be forced to make in order to assist his country. Such bonus would not be deemed "regular pay", and, therefore, would not be subject to  $1\frac{1}{2}$  times for overtime rules which apply to regular overtime service rendered, although, of course, subject to the usual OAB and UE taxes.

This plan enlarges considerably over anything suggested in your letter, but is based very largely upon the suggestions offered by you. While the penalty to ourselves would be rather severe, we feel the cause and the ends obtained would justify the sacrifice. The ultimate good results in educational work among the three hundred employees, showing them the value of saving and investing regularly in these Government securities, would be worth all of the effort and the cost.

In your opinion, would these voluntary bonuses paid to employees under the plan outlined (which are given to them more largely by reason of their loyalty to their employers and to their country and in order to encourage the purchase of defense stamps and bonds) be subject to overtime rate under the Fair Labor Standard Act, more commonly known as the "Federal Wage and Hour Law"?

While, in our opinion, we think the amount could not be construed as a part of regular pay or applying to overtime rate, we want to determine this point definitely before taking action for the reason that should we be forced to so include the bonuses, it would automatically raise the rate of pay, in addition to the bonuses paid, so as to preclude carrying out the plan since the penalty would be too great.

Very truly yours,

WALKER-SMITH COMPANY

(signed) D. Coalson

Secretary-Treasurer

## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE March 2, 1942

TO Secretary Morgenthau

FROM Mr. Haas 

Subject: Operation of Payroll Savings Plans in 4,712 Companies in January.

1. The attached table summarizing the operations of payroll savings plans in 4,712 companies during January 1942 covers about half of the companies actually making deductions for the purchase of savings bonds during that month. The data shown have been submitted to the Treasury during the past two weeks in response to your monthly letter to the companies requesting information on the progress of their payroll savings plans.

2. The 4,712 companies included in the table employed 3,600,000 persons in January, some 1,340,000 or 37.1 percent of whom had a portion of their salary deducted for the purchase of defense bonds under a payroll savings plan during that month. The extent of the participation of the various companies, it appears from the table, was inversely proportional to the size of the company; that is, the participation was greatest in the smaller companies and smallest in the larger companies.

This situation was noted in our memorandum of February 9, covering reports submitted for December, and is accounted for by the fact that a great many of the companies reporting have just gotten their plans in operation and have not had sufficient time to complete the mechanics required to obtain pledges from a large portion of their employees. The 37.1 percent average participation in the 4,712 companies reporting for January compares with a 21 percent average participation in the 1,500 companies reporting plans actually in operation in December, however, and the mere passage of time will allow the companies reporting to make a much better showing with respect to the percent of participation.

Secretary Morgenthau - 2

3. The employees participating in payroll savings plans in the 4,712 companies allowed \$9,753,000 to be deducted from their pay in January for the purchase of defense savings bonds. This represents only 1.6 percent of the aggregate payroll of the 4,712 firms but for the employees participating it represents about 4.5 percent of their aggregate monthly pay. On the average it represents a monthly deduction of about \$7.28 for each employee, an amount which will permit the purchase of one \$25 bond every ten or eleven weeks.

4. The figures appearing in the foregoing paragraph cover only those companies that actually made reports directly to the Treasury on the operation of their plans in January. There are a number of large companies such as Swift & Company, Armour & Company, and International Harvester Company, which are known to have been very active in obtaining employee participation in payroll savings plans, which have not replied as yet to the request for information and which are not included, therefore, in the table. We are making a special effort to get up-to-date information on the operation of the plan in these firms and will include their replies in a subsequent table.

Summary of the Operation of Payroll Savings Plans in January 1942  
 (As reported to the Treasury by 4,712 companies participating in  
 the plan in that month)

Size of company	Number of companies reporting	Aggregate number of employees exposed	Aggregate number of employees participating in payroll savings plans	Percentage of employees participating	Aggregate payroll of employees exposed	Aggregate amount of deductions from pay	Percentage of aggregate pay deducted	Approximate aggregate payroll of employees participating	Percentage of aggregate pay of participating employees deducted
Under 100 employees	1,981	30,204	21,785	72.0	\$ 4,239,291	\$ 125,197	3.0	\$ 3,052,290	4.1
100 - 300 employees	1,186	201,527	114,295	56.6	27,903,391	703,657	2.5	15,793,319	4.5
300 - 500 employees	465	176,342	89,740	50.9	27,241,956	515,572	1.9	13,866,156	3.7
500 - 1,000 employees	565	398,132	179,451	45.1	56,051,045	1,140,767	2.0	25,279,021	4.5
1,000 - 3,000 employees	348	576,783	223,136	38.7	72,762,969	1,400,935	1.9	28,159,269	5.0
3,000 - 5,000 employees	64	245,500	97,073	39.5	40,363,601	677,388	1.7	15,945,997	4.2
5,000 - 10,000 employees	50	388,390	163,394	42.1	59,215,216	932,843	1.6	24,741,137	3.8
10,000 - 20,000 employees	25	314,507	78,995	25.0	56,666,099	544,553	1.0	14,016,525	3.9
Over 20,000 employees	26	1,220,883	372,439	29.1	254,044,266	3,718,539	1.5	74,088,211	5.0
Total - All companies	<u>4,712</u>	<u>1,612,628</u>	<u>1,335,908</u>	<u>17.1</u>	<u>\$ 697,892,834</u>	<u>89,753,491</u>	<u>1.6</u>	<u>\$214,941,526</u>	<u>4.5</u>

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

March 2, 1942

March 2, 1942.

MEMORANDUM FOR THE SECRETARY:

Sales of Defense Savings Bonds in February amounted to \$703,200,000. By series, the bonds were sold as follows:

Series E	\$397,989,000
Series F	51,820,000
Series G	253,391,000
	<hr/>
Total	\$703,200,000

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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 B	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	\$ 3,435	\$ 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
28	2,577	9,420	1,511	8,572	19,502	11,997	1,511	8,572	22,080
Total	\$ 86,938	\$311,051	\$ 51,820	\$253,391	\$616,262	\$397,989	\$ 51,820	\$253,391	\$703,200

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

March 2, 1942.

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

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

Regraded Unclassified

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
December 1941 and January and February 1942

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	February over January	January over December	February over January	January over December
Series B - Post Offices	\$ 86,938	\$158,469	-\$ 71,531	\$ 55,315	- 45.1%	53.6%
Series B - Banks	<u>311,051</u>	<u>508,942</u>	<u>- 197,891</u>	<u>271,012</u>	<u>- 38.9</u>	<u>113.9</u>
Series E - Total	397,989	667,411	- 269,422	326,326	- 40.4	95.7
Series F - Banks	51,820	77,559	- 25,739	44,287	- 33.2	133.1
Series G - Banks	<u>253,391</u>	<u>315,576</u>	<u>- 62,185</u>	<u>161,334</u>	<u>- 19.7</u>	<u>104.6</u>
Total	<u>\$703,200</u>	<u>\$1,060,546</u>	<u>-\$357,346</u>	<u>\$531,947</u>	<u>- 33.7%</u>	<u>100.6%</u>

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

March 2, 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.

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

(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
28	162	none-closed	24,386	-

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

March 2, 1942

<sup>1/</sup> 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.

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
28	162	none-closed	24,386	-
Mar. 1	none-closed	none-closed	24,386	-
2	304	500	24,582	-

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

March 3, 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 Business Day of March, February and January 1942  
 (March 2, February 2, January 1)  
 On Basis of Issue Price  
 (Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	March 1942	February 1942	January 1942	March over February	February over January	March over February	February over January
Series E - Post Offices	\$ 5,811	\$ 8,435	\$ 3,982	-\$ 2,624	\$ 4,453	- 31.1%	111.8%
Series E - Banks	15,868	34,150	10,229	- 18,282	23,921	- 53.5	233.9
Series E - Total	21,678	42,585	14,211	- 20,907	28,374	- 49.1	199.7
Series F - Banks	2,043	6,191	1,964	- 4,148	4,227	- 67.0	215.2
Series G - Banks	8,726	19,795	7,605	- 11,069	12,190	- 55.9	160.3
Total	<u>\$32,447</u>	<u>\$68,571</u>	<u>\$23,780</u>	<u>-\$36,124</u>	<u>\$44,791</u>	<u>- 52.7%</u>	<u>188.4%</u>

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

March 3, 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 - March 1942  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales  Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
March 1942  2	\$ 5,811	\$ 15,868	\$ 2,043	\$ 8,726	\$ 26,636	\$ 21,678	\$ 2,043	\$ 8,726	\$ 32,447

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

March 5, 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

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 2, 1942

TO: Secretary Morgenthau  
FROM: Mr. Haas  
Subject: The Business Situation,  
Week ending February 28, 1942.

Summary

(1) Despite the marked rise in retail sales last year, an analysis of results reveals that sales in the latter part of the year fell below their previous relationship to salaries and wages. Influences tending to curtail consumer buying during the period included Defense Bond sales, installment credit restrictions and increased taxes.

(2) Department store sales continue to taper off from the mid-January peak, when heavy scare buying was in progress. Nevertheless, sales in the week ended February 21 ran 25 percent above year-earlier levels. Probably more than two-thirds of the gain has been due to price increases since last year.

(3) The general price level continues to move gradually higher. The BLS all-commodity index of wholesale prices in the week ended February 21 rose 0.3 percent to 96.5, a new high since July 1929. However, the BLS index of 28 basic commodity prices was again virtually unchanged last week.

(4) Average prices received by farmers as of February 15 were 2.7 percent below month-earlier levels, while prices paid by farmers were 0.7 percent higher. As a result, prices of farm products averaged 99 percent of parity as compared with 102 percent in January.

(5) The huge demands of the expanded shipbuilding program are heavily burdening the hard-pressed plate making facilities of the steel industry, and are complicating the supply problems of railroad equipment manufacturers and other industries.

Consumer purchases in 1941

A partial answer to the question -- What are consumers doing with their increased incomes? -- is provided by data on sales by retail stores compiled by the Department of Commerce, and by confidential estimates of consumer expenditures for various types of services made by the same agency. The following table shows the Department of Commerce figures in dollar totals for 1940 and 1941, and the percentage increases in 1941 over the previous year:

Sales by retail stores:	1940 (Millions of dollars)	1941	Percent increase
Household furnishing stores	1,934	2,387	23.4
Automotive stores	6,819	8,226	20.6
Apparel stores	3,413	4,092	19.9
Filling stations	2,982	3,500	17.4
Eating and drinking places	3,721	4,319	16.1
Food stores	10,764	12,411	15.3
General merchandise	6,791	7,616	12.1

## Expenditures for services (confidential estimates):

Laundry, repairs, and personal care	1,709	1,967	15.1
Medical care	2,232	2,528	13.3
Recreation	1,552	1,711	10.2
Transportation	1,973	2,168	9.9
Housing	8,609	8,698	4.2
Household utilities	2,151	2,236	4.0

It will be noted that the largest percentage increases in consumer expenditures, judging from retail store sales, were for such goods as household equipment and automobiles. Such buying is distinctly inflationary in nature, since it intensifies the demand for scarce materials, and since goods of this type are purchased to a large extent on credit. Automobile sales have now been almost eliminated, and sales of various types of household equipment have been greatly reduced.

Bulking largest in dollar totals, however, were the increased expenditures for foods, as the sales by food stores and by eating and drinking places indicate. The large increase in the dollar totals for food sales, of course, did not entirely represent increased actual purchases of food, but some of the increase doubtless represented a shift to more expensive types of food, and a substantial part was paid merely to cover price advances.

Estimated expenditures for services in 1941 showed a greater lag behind the rise in consumer incomes than expenditures for goods. In fact, as will be seen by referring to the table on the preceding page, the sales gains of the service groups almost without exception ran behind those groups selling various kinds of merchandise. Service expenditures, of course, characteristically show greater stability than expenditures for goods. They are not subject to recurrent waves of anticipatory buying, as in the case of goods sold by retail stores. Moreover, many service expenditure items, such as electricity, gas and water, in the household utilities group, are relatively constant and tend to moderate swings in expenditures.

#### Sales declining in relation to incomes

As the arms program diverts more and more capacity and materials away from the production of consumer goods, the divergence between consumer incomes and the supply of such goods will inevitably create an inflationary pressure on prices, unless measures are taken to sterilize the excess incomes. Some indication that measures already being taken are proving effective in restricting consumer buying is seen when the trend of wages and salaries is compared with the trend of retail store sales.

During recent years up to the summer of 1941, the total sales of retail stores, as compiled by the Department of Commerce, followed very closely the trend of salaries and wages. In Chart 1 (upper line) the trend of salaries and wages is compared with retail store sales (solid line), and also with expected sales (dotted line) estimated from salaries and wages on the basis of their average relationship over the 6-year period 1935-1940.

The outstanding feature of the chart is the noticeable falling off in retail sales, in relation to salaries and wages, during the latter half of 1941. While it is probably unreasonable to assume that sales should continue indefinitely to rise in proportion to the increase in incomes, the change in the sales trend has been so noticeable as to suggest that definite restrictive factors are at work. Several influences have tended to curtail the volume of consumer buying during this period, thus serving to reduce the inflationary pressure on prices: (1) increased taxes on individuals, (2) the Defense Bond sales campaign, (3) Federal Reserve restrictions on installment sales, which became effective in September, (4) heavier excise taxes, which went into effect October 1, although these caused a previous upturn in sales, and (5) reduced supplies of some consumer goods.

### Department store sales recede from January peak

Department store sales in the week ended February 21 continued to drift downward from the recent peak reached in mid-January, when heavy scare buying was in progress. Although sales declined about 5 percent from the previous week, the gain over year-earlier levels actually widened moderately to 25 percent as the corresponding week a year ago made a particularly poor showing. (See Chart 2.)

The volume of actual goods sold in the week ended February 21 showed only a moderate gain over year-earlier levels, since price increases probably accounted for more than two-thirds of the sales gain. Actual figures for last week's sales are not yet available, but a leading trade source in commenting on retail trade in general states that unit volume was close to last year's levels. Moreover, it was reported that scare buying was declining, although there was still a heavy demand for such items as refrigerators, washing machines, ranges and radios. Recent Washington announcements ending production of refrigerators and radios late in April contributed toward stimulating the demand for these items.

### Payrolls increase further in January

Consumer incomes were augmented in January by a contra-seasonal increase in factory payrolls. (See Chart 3.) Although the number of employed factory workers in January declined from the December total, in line with the usual seasonal tendency, payrolls moved upward contrary to the employment trend. This doubtless reflects increased hourly wage rates and increased overtime payments, which have brought a further increase in average weekly earnings of factory workers. Weekly earnings (dotted line on chart) rose in January by 3.4 percent, as estimated from an increase of 1.5 percent in payrolls in a month when employment declined 1.3 percent.

### BLS all-commodity price index continues advance

The BLS all-commodity index, covering wholesale prices of nearly 900 commodities, rose 0.3 percent in the week ended February 21 to 96.5, the highest point since July 1929. (See Chart 4, solid line.) The index has advanced 28.7 percent above the pre-war level of August 1939, and 4.7 percent above that in the week ended December 6, just before the Pearl Harbor attack.

Farm product and food prices continued to account for most of the rise, reflecting continued large consumer demand and heavy Government food purchases. The index of farm product prices has advanced 12.2 percent since December 6, and 67.0 percent since August 1939. The index of food prices has risen 6.9 percent since December 6, and 41.1 percent since August 1939.

#### Basic commodity prices little changed

For the fifth consecutive week the BLS price indexes of basic commodities has scarcely deviated from a level trend. (See Chart 5.) This extended levelling out is due in considerable degree to Government price controls, either by formal price ceilings or informal agreements, which now affect 18 of the 28 commodities. In part, however, the recent price stability reflects uncertainty resulting from the tug-of-war between the Administration and the Congressional farm bloc on control of farm product prices.

Market effects of the passage by the Senate last week of the Gillette-Bankhead bill to prevent sale below parity of Government-owned commodities tended to be offset by apprehension of Administration counter measures. Any tendency toward higher price levels was checked by trade interpretation of the President's letter to the Senate and remarks at his press conference condemning the legislation, and by Secretary Wickard's letter to Senator Brown asking for defeat of the bill. Yet the underlying strength in basic commodity prices was indicated by their steadiness under the verbal anti-inflationary barrage from the Administration. Even after Secretary Wickard's statement that price ceilings on hogs and beef cattle were under OPA consideration, their price gains for the week held steady -- hog prices rising to a point 29.4 percent above that of December 6. Corn prices, however, declined to the lowest level in six weeks.

Reports in the press of discussions between the American Cotton Shippers Association and the Commodity Credit Corporation of a proposed sales program under which CCC cotton stocks might be made available to the trade at substantially below current prices, under authority of the war powers of the President, did not depress the market.

#### Lower prices paid farmers in February: parity prices down

Average prices received by farmers as of February 15 declined from the high January level, but were still above those received in December. The weighted average price

index of the Department of Agriculture declined 2.7 percent from that of January, but was 40.8 percent higher than that of February 1941.

On the other hand, prices paid by farmers on February 15 averaged 0.7 percent higher than in January, and were 14.8 percent above the average paid (including interest and taxes) a year earlier. As a net result, prices of farm products averaged 99 percent of parity, 3 points less than in January and 1 point less than in December.

The price movements for farm products as a whole and for some individual commodities in the first two months of 1942, and in the full years of 1940 and 1941 are shown in Chart 6. The February decline for all farm products reflected an 8.2 percent drop in prices for poultry products and substantial reductions in prices for truck crops, tobacco, and fruit. The charts for individual commodities show that these decreases were partially offset by strong advances in prices for meat animals, cotton, and cottonseed.

#### Shipbuilding program expanding

Under the impact of ship sinkings and the enormous shipping demands of the far-flung war effort, the shipbuilding program continues to expand. During the past week WPB officials stated that shipbuilding goals are now tentatively set at 9 and 15 million deadweight tons of merchant ships in 1942 and 1943 respectively. These figures represent an aggregate increase of 33 percent over the 8 and 10 million ton program outlined by the President at the beginning of the year.

At the start of the year, 1,046 merchant ships of approximately 6,500,000 gross tons were building or under contract, exclusive of vessels not built to American Bureau of Shipping classification. As a result of heavy contract letting in January, the number of vessels under contract, including those building, had risen to 1,809 by February 1, totaling more than 11,500,000 gross tons.

#### Heavy demand for steel plates

The huge shipbuilding program will add to the difficulties of breaking the bottleneck in plate-making facilities of the steel industry. Thus, despite strenuous measures to step up steel plate output, January deliveries to shipbuilders are reported to have totalled only 154,000 tons, as compared with allocations of 225,000 tons. Total production of plates in January for all purposes is said

to have been around 750,000 tons, and a monthly production rate of 850,000 tons is expected to be attained in the near future.

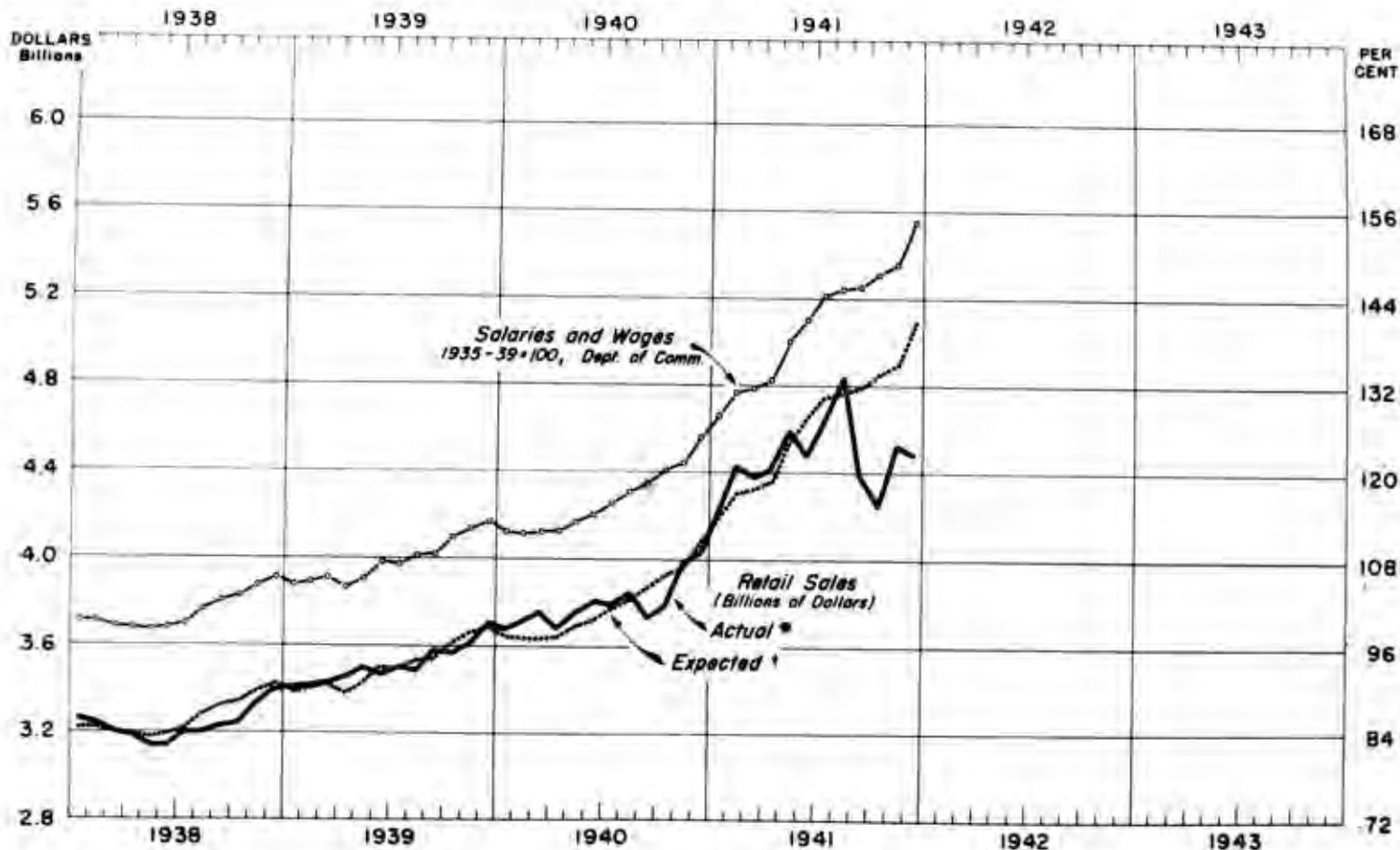
During the past week, WPB and Maritime Commission officials conferred on the problem of breaking the bottleneck in steel plates, and apparently further pressure was brought to bear on the Maritime Commission to change specifications so that converted strip mills could be used to a greater extent. The augmented shipbuilding steel requirements also threatens to slow up the building of much needed railroad equipment, and the Iron Age is predicting that freight cars originally slated for completion by May 1 will not be finished until some time in June. Although the daily average freight car surplus around mid-February was reported at over 65,000 cars, the magazine Steel claims that steel scrap shipments have been delayed in a number of instances recently because freight cars could not be obtained promptly. Moreover, the railroads appear to have about exhausted the possibilities of relieving pressure for freight car requirements by merely increasing the rate of repair of existing equipment. This is indicated by the fact that bad order cars have already been out down to only 3.6 percent, the lowest figure on record.

#### Heavy construction at new high

Freight car builders are reported to be experiencing some difficulty in obtaining structural shapes in addition to other items. This in turn arises in part from the heavy volume of construction under way. Thus, heavy construction contract awards, as reported by the Engineering News Record for the week ended February 26, totaled nearly \$267,000,000, the highest level attained since last summer. (See Chart 7.) Less than 5 percent of the week's total was accounted for by private construction.

# RETAIL SALES COMPARED WITH SALARIES AND WAGES

Adjusted for Seasonal



\* Department of Commerce total retail sales adjusted for seasonal.  
 † Based on average relationship to salaries and wages, 1935 through 1940.

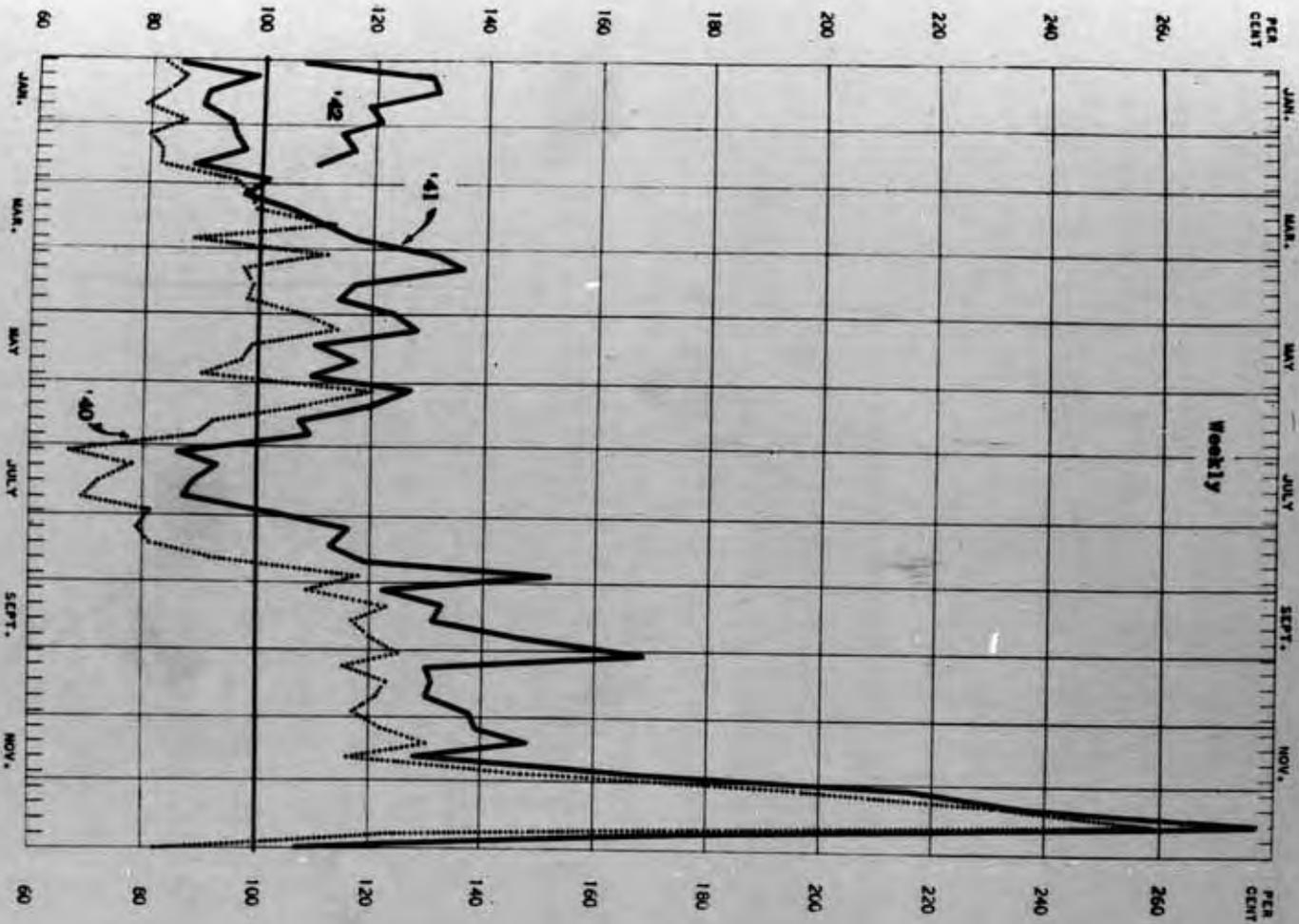
Office of the Secretary of the Treasury  
Division of Research and Statistics

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Regraded Unclassified

Chart 1  
91

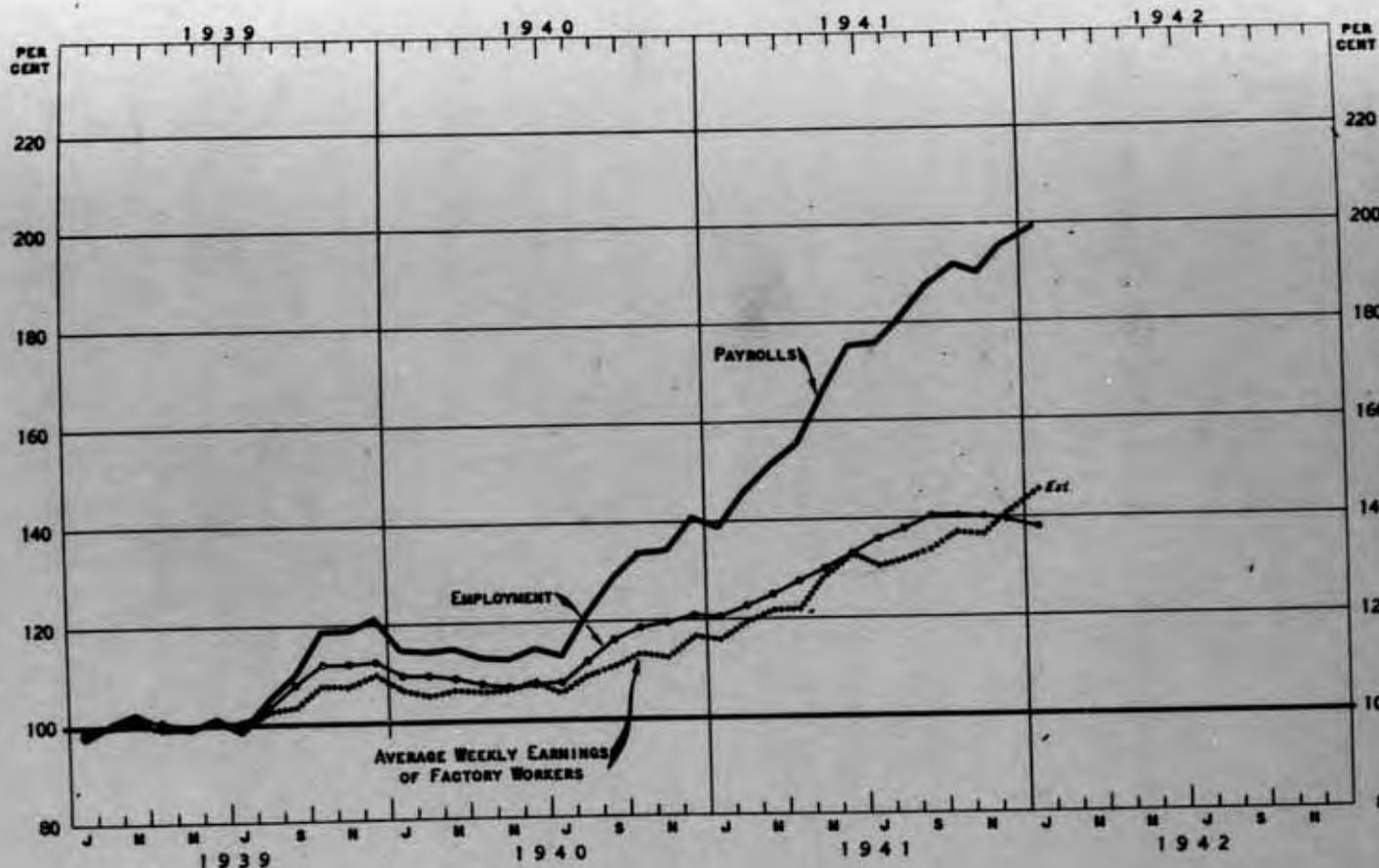
DEPARTMENT STORE SALES  
1935 - '39 = 100, UNADJUSTED



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

C - 390

**FACTORY EMPLOYMENT, PAYROLLS AND WAGES**  
 FIRST 6 MONTHS OF 1939 = 100, UNADJUSTED



SOURCE: B.L.S.

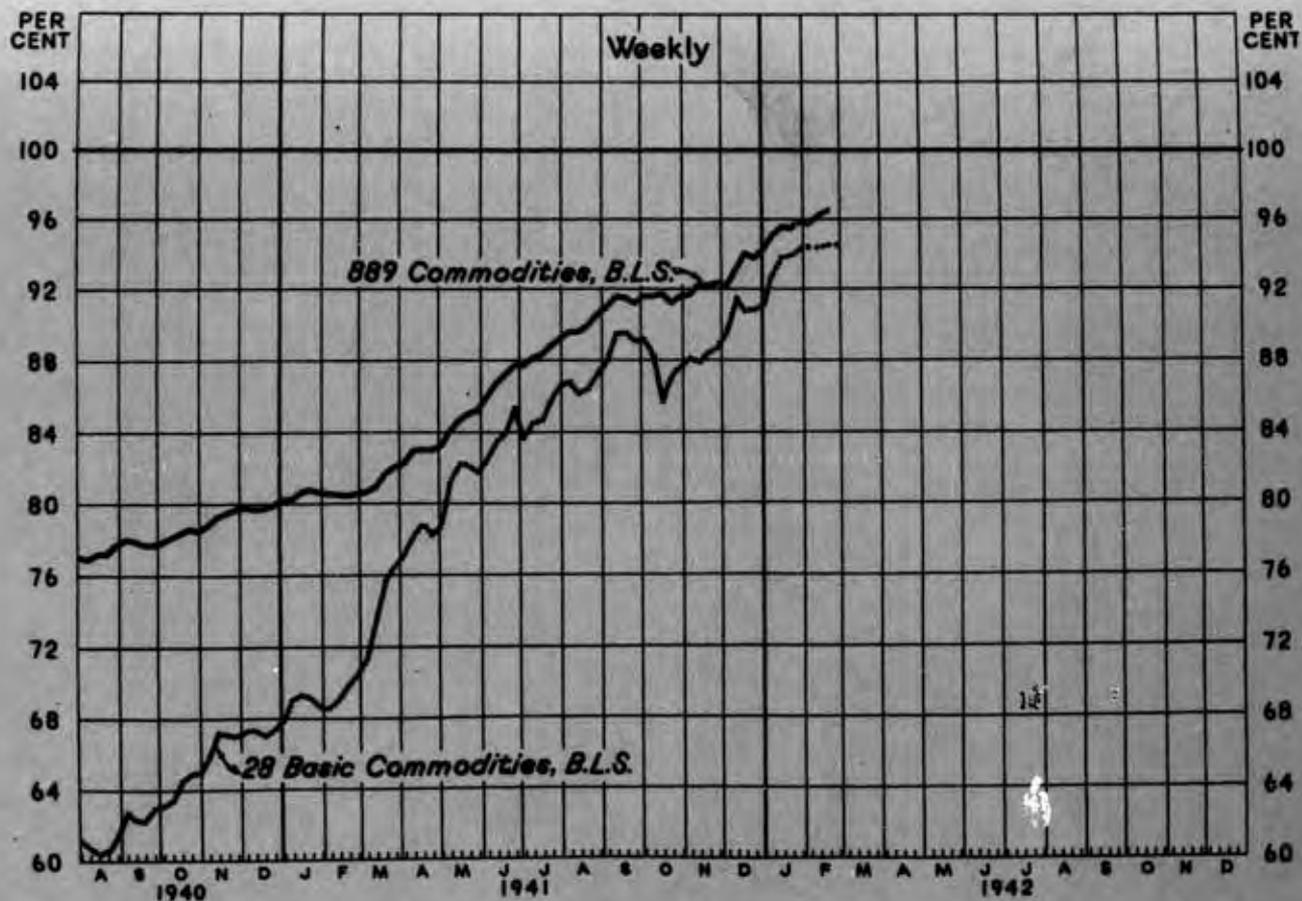
Office of the Secretary of the Treasury  
 Division of Research and Statistics

C - 414

Chart 3  
 93

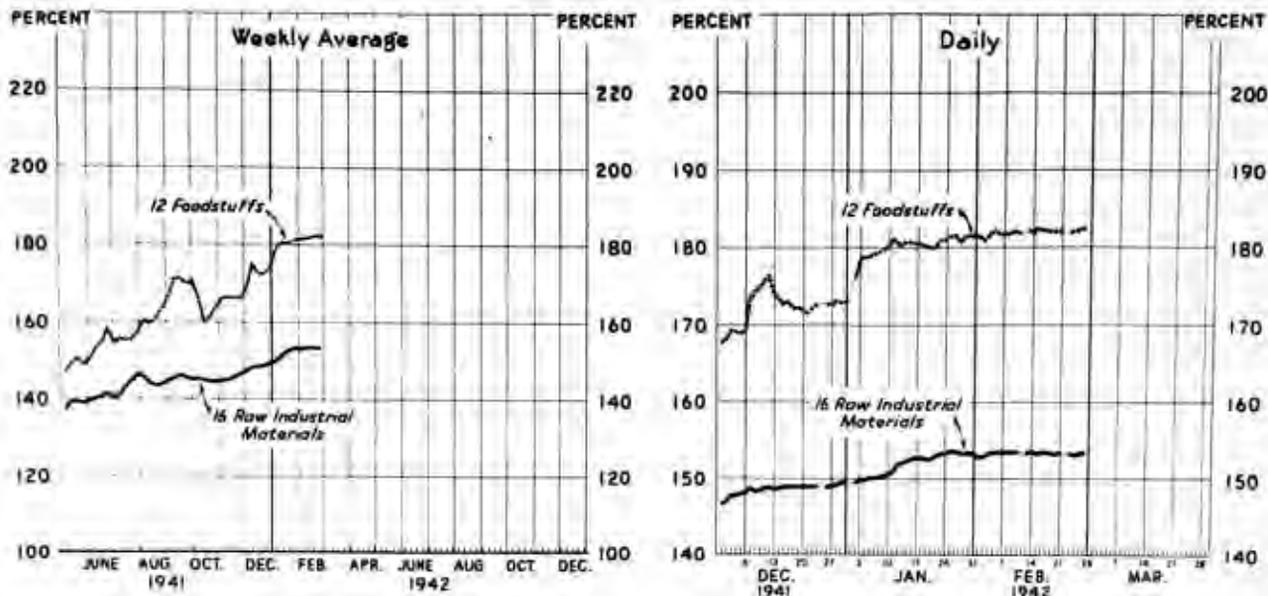
# COMMODITY PRICES

1926=100



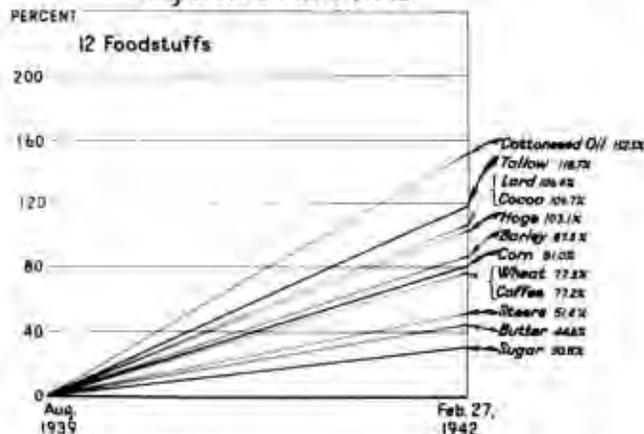
# MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

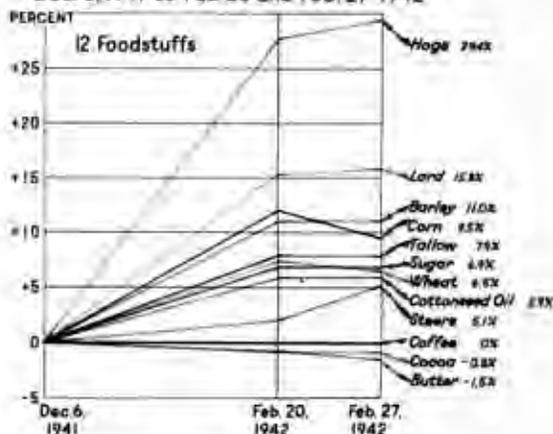


## PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES

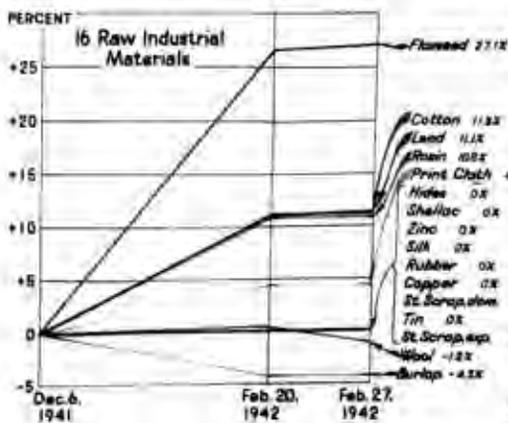
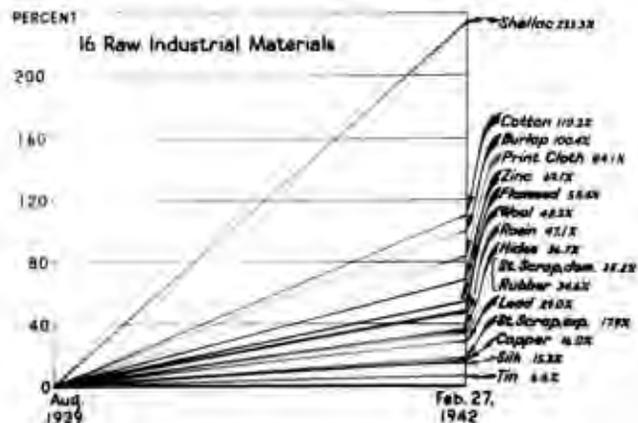
Aug. 1939 to Feb. 27, 1942



Dec. 6, 1941 to Feb. 20 and Feb. 27, 1942

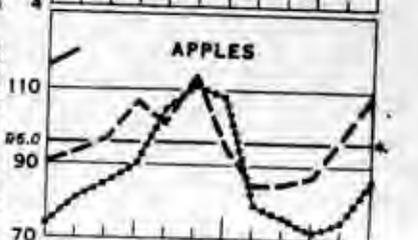
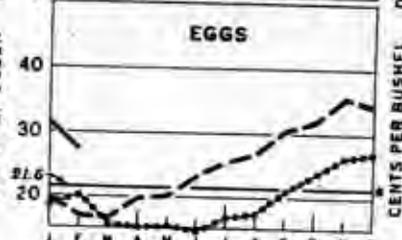
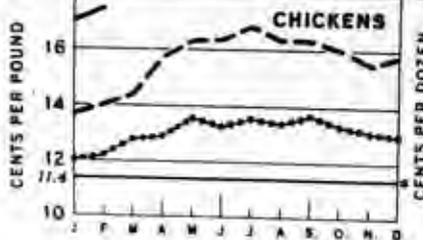
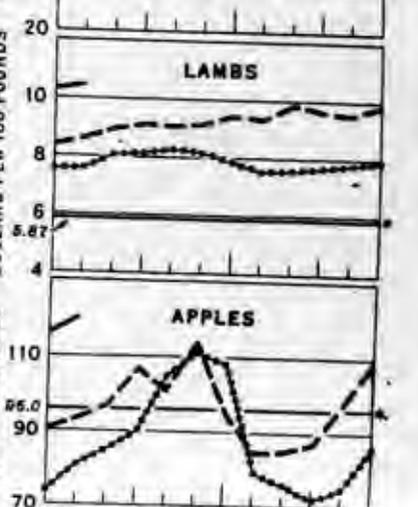
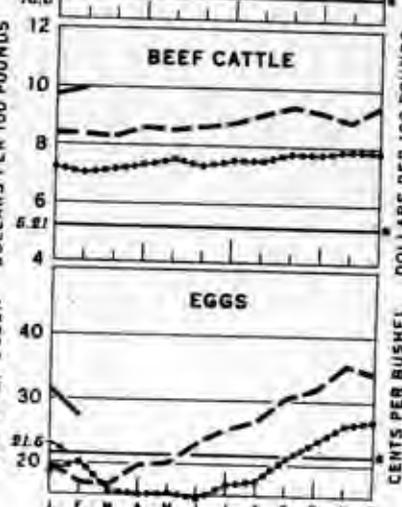
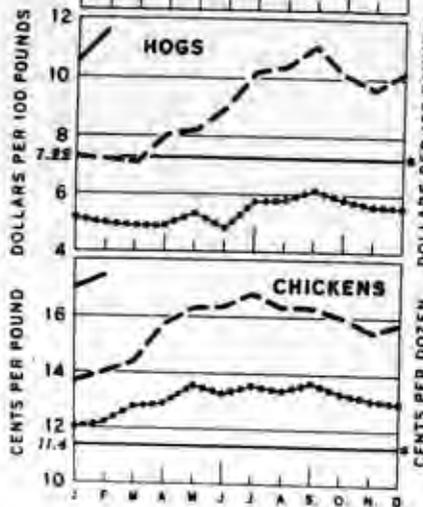
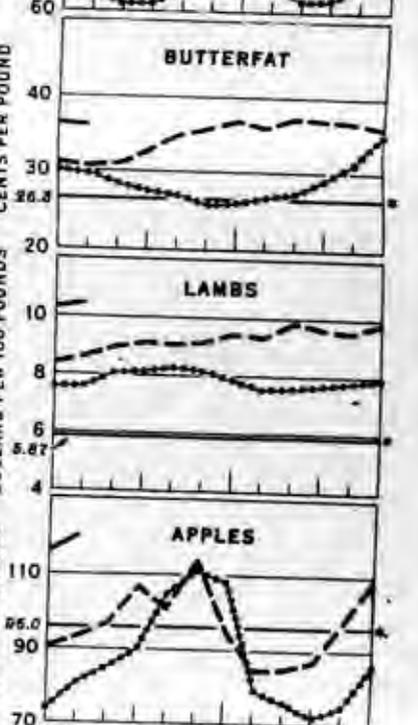
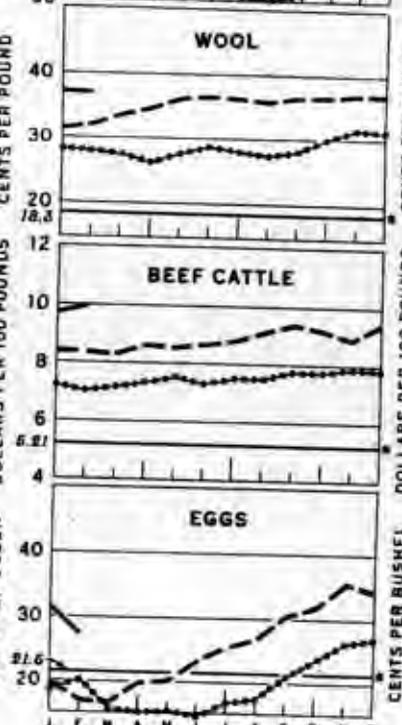
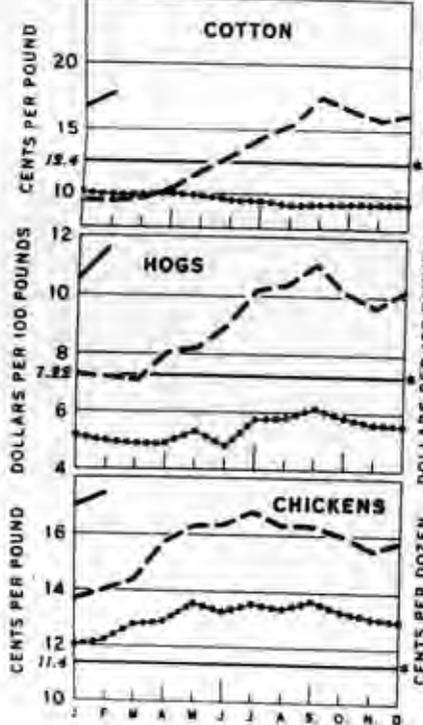
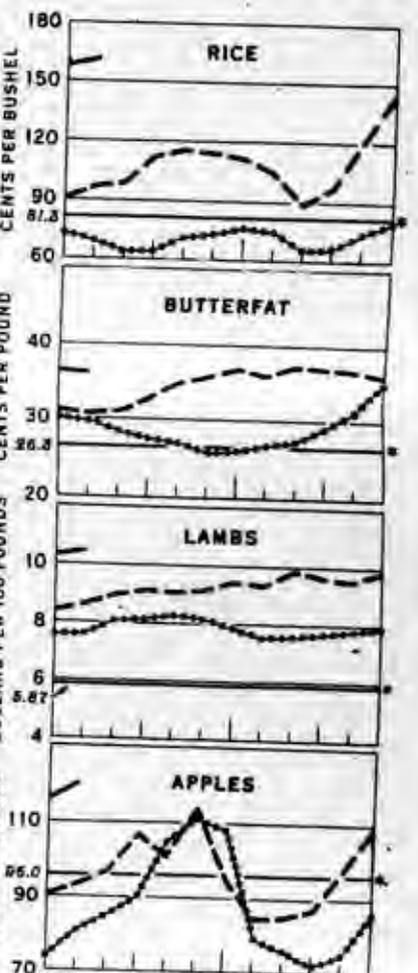
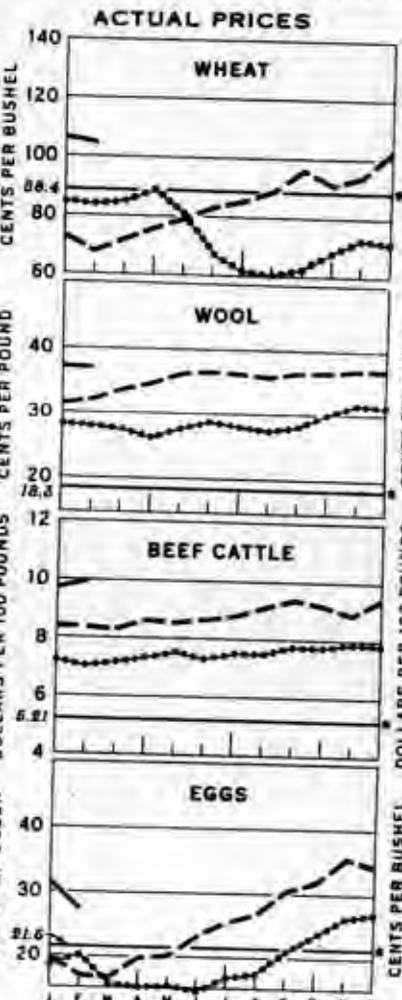
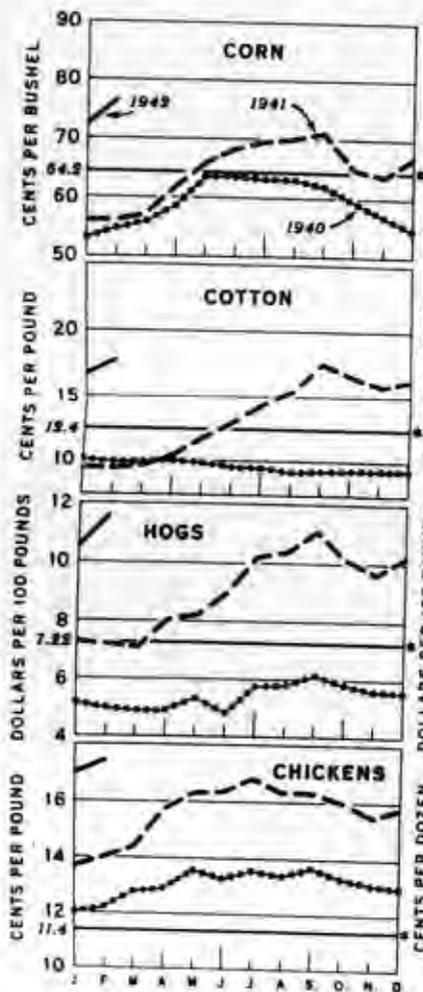
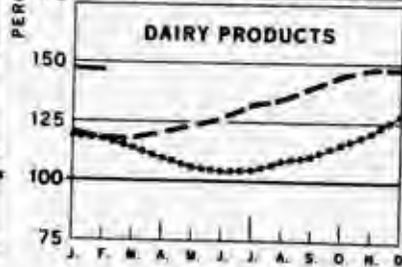
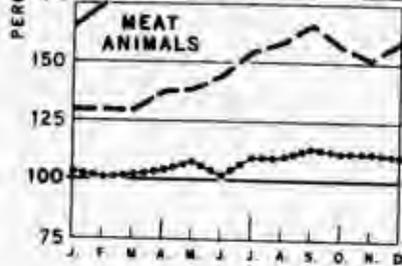
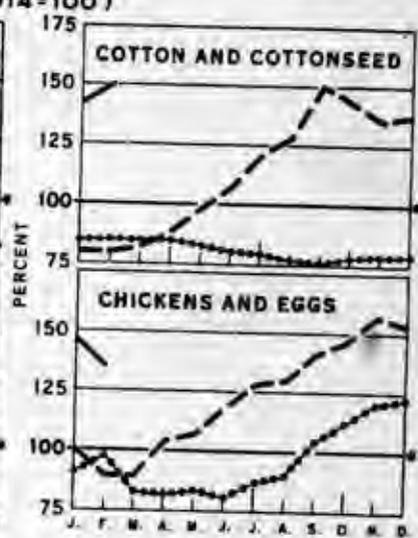
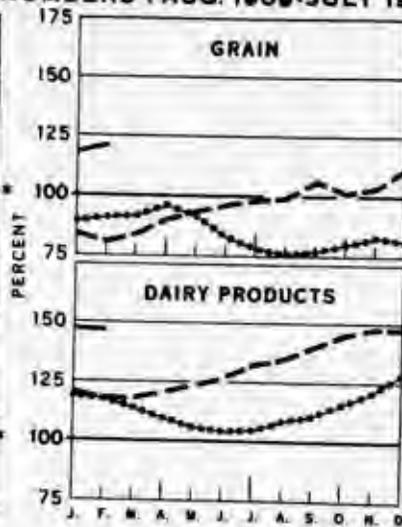
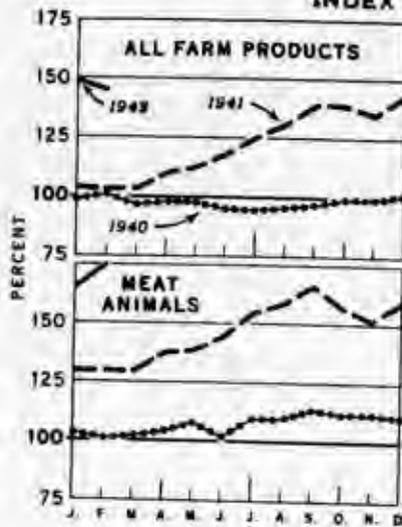


16 Raw Industrial Materials



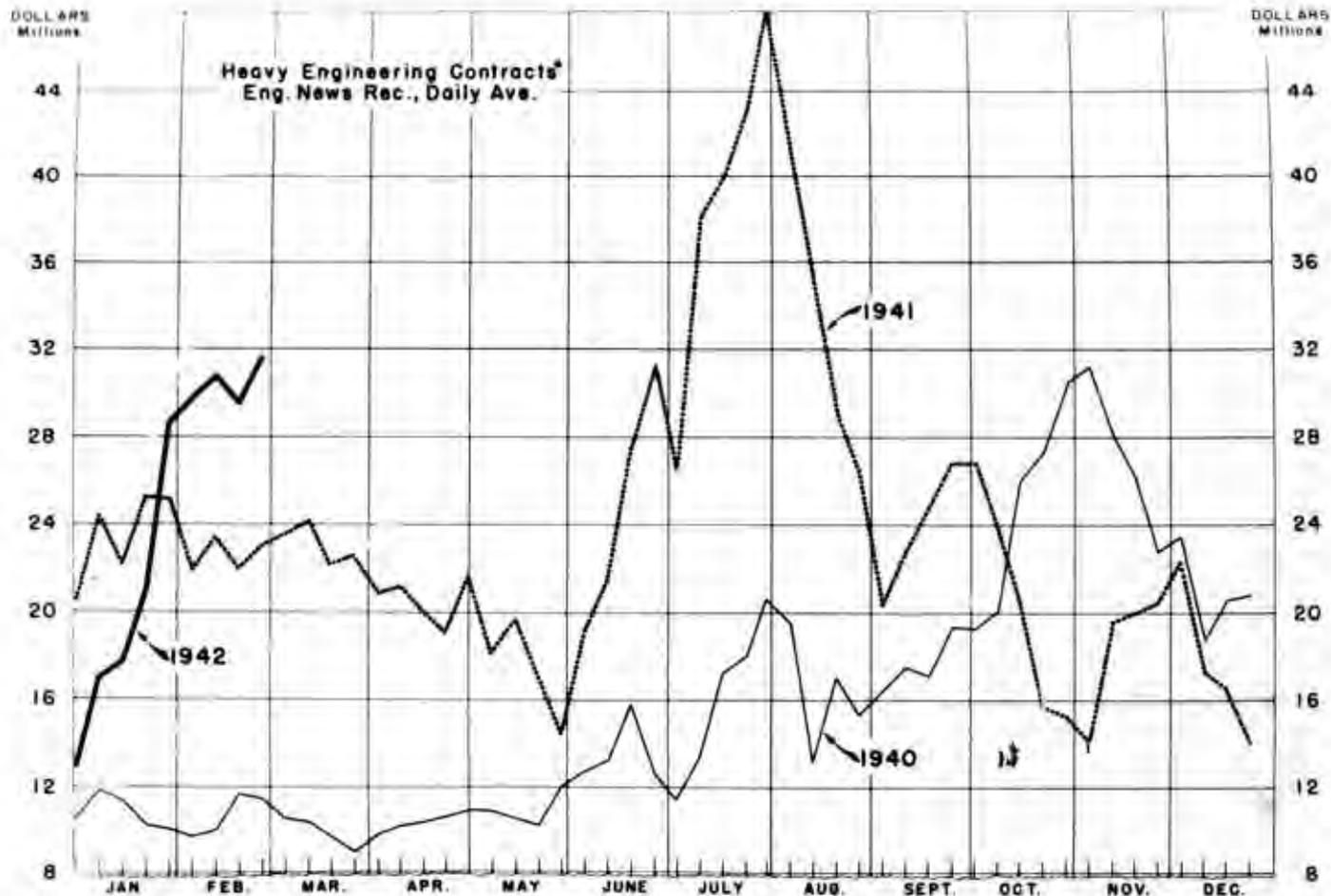
# AVERAGE PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES

INDEX NUMBERS (AUG. 1909-JULY 1914=100)



9 2-YEAR AVERAGE, AUGUST 1909-JULY 1914

# HEAVY CONSTRUCTION CONTRACT AWARDS



MAR 2 1942

Dear Mr. Queeny:

I appreciate your letter of February 20 in regard to our efforts to secure the services of Mr. Bellmap for General Aniline & Film Corporation.

Sincerely yours,

(Signed) H. Morgenthau, JR.

Mr. Edgar Monsanto Queeny  
President  
Monsanto Chemical Company  
1700 South Second Street  
St. Louis, Missouri.

EHP/mp 2/27/42

*H. M. C. Photo file  
File in file  
in book  
also in number station*

# MONSANTO CHEMICAL COMPANY

St. Louis, Missouri

FORM 10  
MONSANTO QUEENY  
FEBRUARY 20, 1942

February 20, 1942

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

My dear Mr. Secretary:

Both Mr. Belknap and I agree that in times like these we have but one duty -- to serve where we can be of the greatest help in the national effort.

This company has been called upon by the government not only for extraordinary amounts of its normal products, which involved considerable expansion, but for a considerable portion of our research facilities as well as design and construction of several large plants for production of gas protective materials for the armed forces, raw materials entering into the synthetic rubber program, and large quantities of TNT. These activities have come directly under Mr. Belknap. Our performance under these assignments is important to the national effort.

It is a fact that the chemical industry is all-embracing of many highly specialized divisions whose only similarity is that all employ chemistry as an implement, as machine tools are an implement in the production of a great variety of articles ranging from guns to watches. While it may be an exaggeration to infer that there is as great a difference between the branches of the chemical industry in which the General Aniline and Monsanto are respectively engaged, the problems of production and markets in which Mr. Belknap has had experience have little relationship to those of dyestuffs and films.

Mr. Belknap and I believe that he, therefore, would have the same initial period of apprenticeship in General Aniline and film problems as any other one of equal ability coming from throughout the so-called chemical industry. In the meantime, the loss of his experience with his current problems would be a loss to the national effort and the contributions of this company to the national effort would suffer. I am sure you would regret that, too.

-2-

I am not discouraging Mr. Belknap's acceptance  
call, for he alone is the best judge of where his  
can be most effective.

Very truly yours



Edgar M. Quesny  
President

MAR 2 1942

Dear Mr. Belknap:

Thank you for your letter of February 19 suggesting Andrew F. Carter of Houston, Texas, for General Aniline & Film Corporation.

We are considering Mr. Carter along with others and expect to be able to come to some definite understanding concerning a directing head for General Aniline & Film within the next few days.

I appreciate the interest you have taken in our problem.

Sincerely yours,

(Signed) H. Wersethau, Jr.

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

ENF:mp 2/27/42

*By mail to Mr. Belknap  
also to Mr. Carter  
Over 27/42  
John to Franklin return*

# MONSANTO CHEMICAL COMPANY

ST. LOUIS, MISSOURI

CHARLES BELKNAP  
EXECUTIVE VICE PRESIDENT

February 19, 1942

The Secretary of the Treasury  
Washington  
D. C.

My dear Mr. Secretary:

Your letter has been received and I appreciate fully the contents thereof.

I have just finished talking with Mr. Swope after his conference with you regarding my suggestion relative to Mr. Andrew F. Carter of Houston, Texas, and I shall await your reaction thereto.

Mr. Carter is a graduate of the Naval Academy in the class of 1905, stayed in the United States Navy until after the last war, was aide to Admiral Benson, Chief of Naval Operations during the war, and is well known to the President, who was then Assistant Secretary of the Navy.

Mr. Carter, after leaving the Navy, joined the Russell Company of Boston who were General Managers for the Merrimac Chemical Company and was in active charge of that company until I was indisposed and took over from him. He organized from inception the Eastern Division of the Shell Oil Company and was its active head for some years, then left to go into the oil business in Texas where he now is. Admiral Stark has asked him to accept a commission in the Navy to be assigned to the Office of the Chief of Naval Operations. This commission he has not as yet accepted and is free to move in any direction. I telephoned you after talking with you and your statement relative to locating an ex Army or ex Naval officer with chemical experience and you were interested. I attach a copy of a letter I received from him today.

He is an able and highly efficient individual, and I am sure your committee will give him the same recommendation.

Sincerely yours



Charles Belknap  
Executive Vice President

A. F. CARTER  
1938 Commerce Building  
Houston, Texas

February 18, 1942

Mr. Charles Belknap  
Acasanto Chemical Company  
St. Louis, Missouri

Dear Charlie:

I wrote you earlier today advising you of the proposal which had been made and steps which had been taken looking toward my entering the Naval Reserve and being assigned to duty in the office of Naval Operations at Washington. Soon after dispatching your letter your tel phone call came through.

It has been my thought right along that whereas there are a lot of people who are available and who can do a Washington job for the Navy, many of those same people have not had the industrial experience that I have had. Anxious as I am to do my full part where needed, it seems to me that a proper estimate of values would place me in some industrial gap rather than in the Naval Service. For this reason I was particularly interested in your information. Following the same reasons, and even with only the information which you gave me, it would seem probable that I could, in fact, be of more service in the corporate work you discussed than in uniform.

As stated to you, I am quite out of touch with Washington, and therefore I would prefer to be governed entirely by whatever decision results from the discussions you have on the subject with those in authority.

Sincerely

A. F. Carter

S e c r e t

March 2, 1942

SURVEY OF INTELLIGENCE MATERIALS No. 12

Office of Facts and Figures

Bureau of Intelligence

## C o n t e n t s

## SUMMARY

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## APPENDIX

## SUMMARY REPORT

The United Nations concept seems to enjoy substantial acceptance by editorial writers and the public.

Apparently a majority of people not only accepts the idea as an expedient for winning the war but is in favor of active collaboration by the United States with other nations in a world organization after the war.

Editorial opinion is showing a tendency to recognize that the status quo can never be restored in Asia and to think in terms of a war for the liberation of all the world, regardless of race. However, statements by Allied leaders on this issue have been somewhat confused.

There is a considerable degree of hostility to Britain. This is especially true in the middle income groups. Only a small fraction of the people favoring active participation in world affairs after the war feel in this connection that the United States and the British Empire should combine as one English-speaking nation.

Axle propaganda, of course, plays upon the differences or latent distrust existing among us. The currency given deliberately or inadvertently to the enemy "line" by domestic press and radio is not extensively and systematically combatted by a full and wide disclosure of the true nature of our enemy.

The superficial unity following Pearl Harbor is not only gone but the sentiment favoring acceptance or consideration

of a peace offer from Germany, even by Hitler, is by no means insignificant. This attitude is strongest in the East-central and West-central states.

There is increased concern about Japan and a growing recognition of the probability of a long war.

While a majority of the public appears to feel that the Government is giving it as much news of the fighting and production fronts as is consistent with national security, a substantial minority distrusts this information as designed to make the situation look brighter or darker than it actually is.

## THE UNITED NATIONS CONCEPT

Editorial Opinion

In recent comment on the war, and particularly in reactions to the President's speech, a majority of the American press has shown genuine enthusiasm for the United Nations' idea. The association among the countries ranged against the Axis has been viewed, not merely as an expedient and transient alliance, but in large measure as a real partnership likely to endure after the war has ended.

Although criticism of some of the associated nations, especially Britain, has lately been of a most vigorous nature, American commentators have been inclined to acknowledge that the United States is equally guilty of the faults which they assail. On the whole, the press has sought to avoid recriminations, recognizing that unity among the United Nations is indispensable to victory.

Public Opinion

Editorial appreciation of the United Nations' concept is matched by a growing public feeling for international cooperation. A recent study prepared by Fredric Williams and Hadley Cantril on the basis of Gallup poll data shows that a great majority of the American people appear to be internationally-minded and feel that this country should take an active part in world affairs when the war is over. The following division was obtained in response to the question, "Which of these two things do you think the United States should try to do when the war is over?"

	% of National Total
Stay out of world affairs as much as we can, or	21
Take an active part in world affairs?	69
Undecided	<u>10</u>
	100

- 2 -

Those urging an active part in world affairs were asked: Which of these statements comes closest to what you think we should do?

	% of National Total
We should do everything by ourselves that is necessary to protect our own national interests wherever they are	19
The United States and the British Empire should combine as one English-speaking nation	5
The United States, the British Empire and <u>other nations</u> should form a world organization	43
Other	0.2
No Opinion	1.8

The first of these groups evidently can be considered only on the borderline of international collaboration; theirs appears to be essentially an imperialist view of America's share in world affairs. But the plurality preference for world organization as contrasted with simple Anglo-American collaboration may be regarded as striking acceptance of the United Nations' concept.

It should be noted that when the group favoring world organization was asked if any countries should be excluded, about 40 per cent of them answered "Yes". Most of these favored the exclusion of Germany and Japan, some of Italy; only a very small percentage, 3 per cent, would exclude Russia.

#### Axis Propaganda

In the face of the manifest trend of public thinking toward world integration, certain disunifying influences remain actively at work. Most obvious among these is the influence of Axis propaganda. By means of shortwave radio, the Axis is busily endeavoring to foment distrust of one another among the United Nations. The

circulation attained by the Axis propagandists is difficult to measure. No authoritative figures are now available as to the extent of listening to shortwave broadcasts from enemy sources in the United States, although a study on this subject is in progress. It may be pointed out, however, that the effectiveness of radio as a propaganda instrument by no means depends upon direct audition; the content of Axis shortwave broadcasts continues to receive wide circulation in the United States through the media of domestic radio stations and daily newspapers. Conveyed through these media, the propaganda receives an imprimatur of respectability and authenticity which it does not possess when its source is clearly recognized.

Axis attempts to promote disunity take three directions:

1. To create fear of the spread of Bolshevism;
2. To play upon the latent distrust and dislike for Britain in the United States.
3. To undermine confidence in the United States Government.

All three of these purposes are ably abetted by the isolationist elements in the American press.

#### Hostility to Britain

That a considerable degree of hostility to Britain exists in the United States is made evident by public opinion sampling. Another study conducted by Williams and Cantril based on polling conducted during the week after February 4 shows the following division on questions regarding attitudes toward Britain: "Some people say that the British are largely to blame for our being in this war. Do you agree or disagree?"

- 4 -

	% of National Total
Agree	24
Disagree	60
Qualified Answer	2
No Opinion	14

"Do you think the English will try to get us to do most of the fighting for them in this war, or do you think they will do their fair share of the fighting?"

	% of National Total
Will try to get us to do their fighting	32
Will do their fair share of the fighting	58
Qualified Answer	1
No Opinion	9

A break-down of those answering the second query shows that persons under 30 years of age are most inclined to believe that the British will do their fair share of the fighting and that the bulk of distrust of the British is within the middle income group; the extremes of opinion are:

	People Under 30 (Upper Income)	People Over 50 (Middle Income)
Will Try To Get Us To Do Their Fighting	15%	44%
Will Do Their Fair Share	77%	49%

The same survey affords another indication of the distrust felt in this country for the British. In response to the question "Do you think the British are doing all they possibly can to win the war", 63 per cent said "Yes", 27 per cent said "No", while 10 per cent expressed no opinion. An almost equal percentage, although not the same people, voiced the same dissatisfaction with the war

effort of the United States. Asked if this country was doing all it possibly can do in the war, 25 per cent said "No", 71 per cent said "Yes", with 4 per cent expressing no opinion.

#### Attitude Toward Russia

The division of opinion in respect to the same question about the Russian war effort provides an interesting contrast; 88 per cent of the sample feel that the Russians are doing all they possibly can to win the war, while only 4 per cent disagree with this view and 8 per cent hold no opinion on the subject.

This high degree of confidence in Russia's war effort finds reflection in current editorial comment. Newspaper reactions to Premier Stalin's anniversary Order of the Day to the Red Army reached a new high level of friendliness toward the Soviet Union. There were few hostile allusions to Communism; on the contrary, most comments praised the realism and determination of the Russian leader and the devotion and fortitude of the Russian people.

At the present time the prevailing expectation is that the German spring offensive will shatter the recent Russian gains; however greatly headlines have dramatized the Red Army's counter-offensive throughout the winter, editorial appraisals, particularly of late, have tended to minimize it. Only isolationist newspapers have pictured the Russians as being on the road to victory; and this picture has manifestly been presented in an effort to instill a fear that Communism will spread over the whole of Europe, and to make us feel the Nazis are no longer a menace. It is altogether possible that a large scale Russian success in the spring would bring in its train a greatly increased hostility toward the Soviet

Union; friendliness toward the Russians now may be sympathy for an under-dog, as well as recognition that they have effectively checked the Nazi drive.

### India

One more manifestation of the United Nations' idea should be noted here. The statement of Indian aspirations for independence made recently by Generalissimo Chiang Kai-Shek has received a great deal of editorial attention.

The realization of Indian hopes is generally supported by the American press, not only as a means of procuring the full mobilization of Indian resources on the side of the United Nations, but also because of a genuine desire to promote Indian freedom. Most commentators point with pride to the American colonial record in the Philippines and feel that the British might well emulate it. Many of them now recognize that the status quo can never be restored in Asia, and some are beginning to think in terms of a genuine democratic war for the liberation of all the world, regardless of race, creed or color.

### THE "TURTLE" BLOG

#### Editorial Opinion

The shelling of the California coast by a Japanese submarine was heralded by the bulk of the press as confirmation of the President's view that "The broad oceans ..... have become endless battlefields."

Only a very small isolationist segment of the press, and this somewhat diffidently, suggested that we should bring our naval forces home to ward off such attacks upon our shores. It seems likely, nevertheless, that this minority will grow more vocal as

the early effects of the President's admonition fade away.

### Axis Propaganda

Axis shortwave broadcasts are working vigorously toward this end. Berlin, Tokyo and Rome radios magnify the attack and the damage inflicted, representing the American people as "very much alarmed". This magnification of the raid has been broadcast zealously to South America and to China as evidence that the United States Navy is incapable of extending its protection.

In their efforts to promote isolationist and "turtle" feeling in the United States, Axis radios have been making liberal use of quotations from speeches by Americans. Thus, on a beam to Latin America, the Berlin radio broadcast, "Senator Walsh demands that the United States Navy come home and protect the nearly defenseless shores of North America alone. If they do this, how can these Yankee gentlemen guarantee the defense of South American coasts in return for Ibero-American entry into the war?" Radio Roma asserted, "Senator Walsh stated that the Pacific, the Atlantic and the Gulf of Mexico coasts of the United States are practically without defenders, adding that it may soon become necessary to call back for the necessary defense of these coasts what Senator Walsh called 'our weakened American fleet'." Senator Hiram Johnson was quoted as expecting another Pearl Harbor catastrophe off the West coast.

### The Isolationist Core

During the month preceding Pearl Harbor, the extreme opponents of the Administration's foreign policy were gradually whittled down to what may well be an irreducible minimum. It represented approximately one-fifth to one-fourth of the population. For those included

- 8 -

within this group, the term "isolationist" was wholly a misnomer. The group consisted in the main of three elements: genuine pacifists, Fascists or pro-Fascists and die-hard anti-New Dealers who carried their bitterness against the Administration so far as to be hostile to any policy which it endorsed.

Public opinion research sheds some light on the composition of this die-hard "turtle" group. In numbers it appears to be just about the same size as it was prior to Pearl Harbor -- an indication that its constituents are not liable to a change of heart or mind on any basis whatsoever.

Two weeks after Pearl Harbor, about one-tenth of the people in the United States were in favor of accepting a peace offer made by Hitler on the basis of his leaving matters as they then stood. In the latter part of January, when a sample was asked "If Hitler offered to stop the war now and discuss peace terms with the Allies, would you favor or oppose accepting Hitler's offer?", 12 per cent said they were in favor, 81 per cent were opposed, with 4 per cent undecided, and 3 per cent giving qualified answers.

A larger percentage of the public would be in favor of making peace with the German army, as distinguished from Hitler himself. When asked "If the German army overthrew Hitler and then offered to stop the war and discuss peace terms with the Allies would you favor or oppose accepting the offer of the German army," 30 per cent were in favor, 61 per cent opposed, 6 per cent undecided, with 3 per cent giving qualified answers.

That a substantial portion of those favoring peace on either of these bases are out-and-out Fascist sympathizers is made evident by their response to the question "If the Allies accepted the German peace offer and stopped the war now, do you think the peace settlement would mean a victory for Germany, or a defeat for Germany?", twenty-nine per cent said it would mean a victory for Germany, 50 per cent said it would mean defeat, 21 per cent admitted they didn't know. This means that about 10% of the total would make peace now on the enemy's terms, and that about 15 % think we could make peace now on our own or compromise terms.

A geographical break-down, prepared by Cantril and Williams, of those favoring the discussion of peace terms with the German army reveals that they are predominantly those living in large cities and in the East-central and West-central states.

#### PUBLIC THINKING ABOUT THE WAR

Figures obtained this week reveal a marked shift in popular expectations as to the duration of the war. There is a sharp decrease in the number of those believing that the war will be over in two years or less and a corresponding increase among those anticipating a long war, over three years. The following table shows the results of three nationwide OFF polls based upon interviewing at different dates:

	Dec. 26 - 30	Jan. 28 - Feb. 4	Feb. 16 - 23	
Under 6 months				
6 months - 1 year	40.8%	12.1	7.6	} 28.1%
13 months - 2 years	27.9	26.5	19.9	
25 months - 3 years	26.4	16.4	21.5	} 44.6%
37 months - 4 years	12.6	8.8	10.6	
49 months - 5 years	27.9%	9.9	11.5	
Over 5 years	5.9	5.6	12.5	
Don't know	4.9	19.9	15.8	

At the same time there is a good deal less certainty as to the outcome of the war. A marked decrease is discernible in the percentage of those believing that the United States will win without question, while there is a corresponding rise both among those who feel that the victory may not be altogether decisive or that the result will be a stalemate. Following is a comparison of public responses on this topic at different dates: "Which of these statements comes closest to the way you feel the war will end?"

- a. There is no question but that the United States and her Allies will win the war and be able to write the peace terms.

Dec. 26 - 30	68.5%
Feb. 16 - 23	64.6%

- b. We will win the war all right, but the losers will be strong enough so we will have to make some concessions too.

Dec. 26 - 30	22.4%
Feb. 16 - 23	30.8%

- c. We won't be defeated, but neither will the Axis -- the war will end in a draw.

Dec. 26 - 30	3.9%
Feb. 16 - 23	6.6%

- d. I am afraid the Axis powers will have a pretty good chance to win the war.

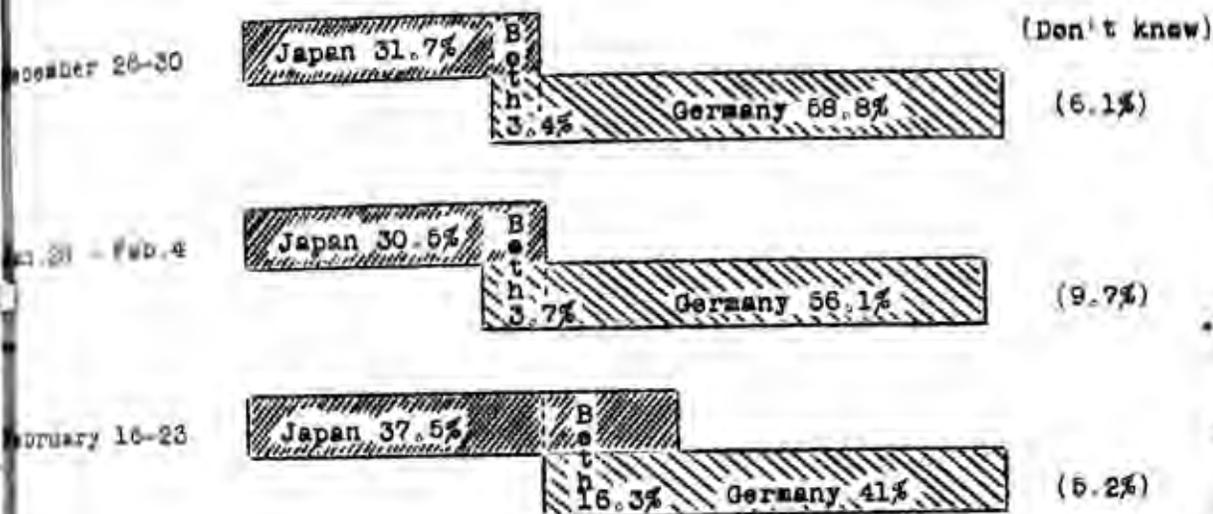
Dec. 26 - 30	.9%
Feb. 16 - 23	3.9%

- e. Don't know.

Dec. 26 - 30	4.3%
Feb. 16 - 23	4.2%

The concentration of attention on Pacific fighting is reflected by an increased public disposition to regard Japan either as our prime enemy or as equal in importance with Germany. The following diagram illustrates the trend in this direction:

WHICH DO YOU THINK THE UNITED STATES SHOULD CONSIDER  
ITS NUMBER ONE ENEMY - JAPAN OR GERMANY?



### EIRE

Although there has been a great deal of public and editorial discussion of Eire's relationship to the war, the rather surprising fact is that only about one-half of the people of the United States have any knowledge of what this relationship actually is. In response to the question "Do you happen to know whether or not the Irish Free State (Eire) has gone to war against Germany," 48 per cent of a national sample answered "No", 2 per cent said "Yes", while the entire balance, 50 per cent, found themselves in the "Don't know" column. New Englanders proved to be best informed on this topic -- no doubt because of the high percentage of Irish among them, 84 per cent in this area knew that Eire is a non-combatant. But in the South only 40 per cent were aware of the Irish position.

These figures provide a rather startling indication of the degree of popular indifference sometimes manifested toward issues which seem to be of prime political importance. They should be considered in evaluating published Gallup poll results respecting Eire. Of those aware of existing Irish neutrality, 90% "would like to see the Irish Free State let the Allies use war bases along the Irish coast", while 71 per cent feel that the Irish Free State should "join the Allies in declaring war against Germany." Irish-Americans, a majority of whom a year ago voted against abrogation of Eire's neutrality, now record themselves as 56% in favor of an Irish declaration of war against Germany and 72% in favor of letting the Allies use bases along the Irish coast.

#### INFORMATION

Public feeling about the Government's output of information is freshly reflected in the results of a limited telegraphic poll, based upon small sample and taken in a limited number of places on February 21 of this year. In response to the question "Do you think the Government is giving the public as much information as it should about the fighting in this war", 68.3 per cent said "Yes", 22.7 per cent said "No", 9 per cent were in the "Don't know" column.

When this question was stated inversely, "Do you think the Government could give us more information about the fighting in this war without helping the enemy," a slight variation resulted. The number answering "Yes" was 28.6 per cent, those answering "No" amounted to 63 per cent, with the "Don't know" group at 8.4 per cent.

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Similar questions were asked about information on the production program as follows: "Do you think the Government is giving the public as much information as it should about our production program here in the United States?"

YES: 63.7%      NO: 26.3%      DON'T KNOW: 10.0%

"Do you think the Government could give us more information about our production program without helping the enemy?"

YES: 28.6%      NO: 63.0%      DON'T KNOW: 8.4%

As to the accuracy of the Government's information the following results were obtained: "Do you think the war news the Government does release is accurate, or that it makes the situation look better than it really is, or makes it look worse than it really is?"

Accurate: 38.3%    Looks better: 35.4%    Looks worse: 10.4%  
D.K.: 15.9%

"Do you think the news the Government does release about our production program is accurate, or that it makes the situation look better than it really is, or makes it look worse than it really is?"

Accurate: 48.2%    Looks better: 26.5%    Looks worse: 11.5%  
D.K.: 13.7%

While these data may be taken to indicate a fairly high measure of popular satisfaction with the quantity of the Government's information on the fighting and production fronts, they also reveal a significant distrust of the quality of this information. A considerable portion of the public seems inclined to discount news from official sources as overly optimistic and a smaller but not negligible minority feels that the government is painting too dark a picture.

POLICY STATEMENTS

Some degree of confusion appears to exist as to the policy of the United States and of the United Nations on two issues now claiming public attention. There are discrepancies between the authoritative statements made by the chiefs of the American, British and Chinese governments respecting the nationalist aspirations of the Indian people. And uncertainty exists as to the attitude of the United Nations in distinguishing between the German people and the Nazi government.

Both Hitler and Goebbels have sought to persuade the German people that the United Nations are waging war, not merely against the Nazi government, but against all Germans. In his anniversary Order of the Day to the Red Army, Premier Stalin endeavored to shatter this impression, at least as far as the Soviet war effort is concerned. But the policies of the United States and Great Britain have never been entirely clarified on this score.

A comparison of authoritative statements on this subject and on the subject of Indian independence will be found in the appendix.

PRESIDENT ROOSEVELT'S TALK

The President's radio address of February 23 received the highest radio audience ever recorded (78.1 per cent), with the single exception of his broadcast on December 9 which exceeded it by only .9 per cent. A minute by minute check on the audience in 32 cities from coast to coast showed that the audience grew as the talk progressed and was larger at the conclusion than at the outset. This fact seems noteworthy considering the hour at which he spoke -- a time when radio attention is normally at a relatively low ebb.

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Morning newspapers of February 24, of course, gave the speech banner headlines, although a majority of the press placed it in a position slightly subordinate to news of the Japanese submarine raid on the California coast.

APPENDIX 1  
 Authoritative Statements Concerning India

Atlantic Charter, August 14, 1941

Point 3:

"They respect the right of all peoples to choose the form of government under which they will live;....."

Great Britain

China

United States

September 9, 1941- Churchill - "The Joint Declaration (Atlantic Charter) does not clarify in any way the various statements of policy which have been made from time to time about the development of constitutional government in India, Burma or other parts of the British Empire . . . . At the Atlantic meeting, we had in mind, primarily, the restoration of sovereignty, self-government and national life of the states and nations of Europe now under Nazi yoke . . . ."

February 3, 1942- Under-Secretary of State for India and Burma - "We have . . . invited Indian leaders of all shades and opinion to get together to formulate some scheme whereby an Indian government or governments may be formed, to which we can transfer power, and we have given assurance that the transfer will take place as early as possible after the war."

February 21, 1942- Chiang Kai-Shek "I hope Britain, without waiting for any demand on the part of the Indian people, as speedily as possible will give them real political power so they will be in a position to develop further their spiritual and material strength."

February 23, 1942- Roosevelt "We of the United Nations are agreed on certain broad principles in the kind of peace we seek. The Atlantic Charter applies not only to the parts of the world that border on the Atlantic, but to the whole world."

## APPENDIX II

## Authoritative Statements Concerning German People vs. Nazi Regime

RUSSIAStalin, February 23, 1942

"Occasionally the foreign press engages in prattle to the effect that the Red Army's aim is to exterminate the German people and destroy the German State. This is, of course, a stupid lie and a witless slander against the Red Army. The Red Army has not and cannot have such idiotic aims. The Red Army's aim is to drive out the German occupants from our country and liberate Soviet soil from the German fascist invaders.

"It is very likely that the war for liberation of the Soviet land will result in ousting or destroying Hitler's clique. We should welcome such an outcome. But it would be ridiculous to identify Hitler's clique with the German people and the German State. History shows that Hitlers come and go, but that the German people and the German State remain.

GREAT BRITAIN  
(Empire & European Allies)Atlantic Charter, August 14, 1941

Point 6. "After the final destruction of the Nazi tyranny, they hope to see established a peace . . ."

Point 1. "Their countries seek no aggrandizement, territorial or otherwise."

Point 2. "They desire to see no territorial changes that do not accord with the freely expressed wishes of the peoples concerned."

Point 4. "They will endeavor, with due respect for their existing obligations, to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."

Resolution of Allied Governments, June 12, 1941

"That they will continue the struggle against German or Italian aggression until victory is won..."

Churchill, January 27, 1942

"The 'Union' of the United Nations 'is based upon the principles of the Atlantic Charter; it aims at the destruction of Hitlerism in all its forms and manifestations in all corners of the globe."

UNITED STATESRoosevelt, January 6, 1942

"Our own objectives are clear; the objective of smashing the militarism imposed by war lords upon their enslaved peoples..."

Roosevelt, February 23, 1942

"We and the other United Nations are committed to the destruction of the militarism of Japan and Germany."

GERMANYHitler, January 30, 1942

"We Germans cannot in general imagine that if a country near us suddenly decides on a certain form of government, we must declare war on this country just because that particular form of government doesn't suit us. We can't comprehend this at all, and naturally the others can't understand it either. They did not enter the war for this reason. They did not declare, and they did not go to war because they were irritated by the form of the state. They are capable of embracing the lowest form of government when necessary, in order to collaborate with it. No, no, it is not a question of a form of government, but other reasons which brought them previously into a war against the German Reich . . ."

DEPARTMENT OF STATE  
WASHINGTON

March 2, 1942

My dear Henry:

At the meeting on February 12 of the group considering procedure for reciprocal aid, you asked me to give you the views of this Department as to whether the arrangements should be made with the United Kingdom for the British Empire as a unit or whether we should deal directly with the Dominions. We have been at work upon this question and have consulted Lease-Lend officials and Mr. Harry White as to the practicality of various suggestions.

I am enclosing a memorandum which gives our views upon your question and elaborates to some extent the operation of the method proposed. The question arises as to future procedure. One course would be for you, after you have considered the enclosed memorandum, to call a meeting of the group to get their views and, if  
it

The Honorable

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

It is generally acceptable, to have us talk with the British Embassy and the Dominion Legations to get their ideas before a final decision is made.

I shall be glad to talk the matter over with you at your convenience.

Very sincerely yours,



Dean Acheson  
Assistant Secretary

Enclosure:

Memorandum.

DEPARTMENT OF STATE

ASSISTANT SECRETARY

February 28, 1942.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

At the meeting of February 12 on methods for effecting reciprocal aid, or Lend-Lease in reverse, the Secretary of the Treasury asked the State Department to consider and inform him whether in its view all arrangements for aid and reciprocal aid should be worked out through the United Kingdom for the whole British Empire or whether there should be direct Lend-Lease relations with the Dominions.

The following plan is submitted for consideration. The idea that, if the various departments and agencies agree that the plan as outlined is practicable, the State Department might take it up with the British and Dominion representatives for approval of the general outline after which the financial and administrative details can be worked out by the appropriate agencies. The plan is intended to apply to the United Kingdom and Dominions, other than Canada or any other not receiving Lend-Lease aid. It provides for dealing both

with

United Kingdom and the Dominions under a procedure which is designed not to interfere with the political or financial relations between them.

1. Lend-Lease Agreements. Either by an exchange of notes or by agreements auxiliary to the British Lend-Lease Agreement, the United States, the Dominion and the United Kingdom would agree that the provisions contained in the British Agreement are applicable between the United States and the Dominion and that aid transferred to the Dominion shall be so recorded.

What transfers are to be made would be determined upon the joint requisition of the United Kingdom and the Dominion and by the decision of one or another of the agencies of Joint High Command or by agreement between this country, the British, and the Dominion. Items so transferred to a Dominion and recorded as such should not be charged upon the United Kingdom account.

2. Aid to American Forces in the Field. Under the provisions of the Lend-Lease agreements relating to reciprocal aid, the United Kingdom and the Dominions should work out (by exchange of notes or otherwise) a plan of assistance for American forces in their respective territories or waters.

The

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The general plan suggested is that this Government supply its forces and other American personnel by purchasing local currency with dollars; and that whatever it is possible to supply locally should be supplied as reciprocal aid.

Housing, roads, landing fields and works of various sorts, repair of ships and material (where facilities are available) should be done by and at the expense of local authority. Stores, provisions, munitions and equipment, so far as local stocks are available and technically usable, should also be supplied by the local authority. The method of provision may be either by requisition upon the authorities or by provision to United States authorities of local currency or both, whichever is agreed upon as most practical.

It should be reiterated, in this connection, that the United States will continue its policy of maintaining essential supplies and materials, subject to its own shortages and shipping limitations, and that we will provide what materials needed for such purposes are not obtainable locally. Furthermore, it will be clear that final control of local priorities in supply will remain with the local authorities.

In

In working out the details of such a plan, some flexibility would be necessary. In case it should be found that provision by way of reciprocal aid of certain items deprived the providing government of exchange necessary to meet some obligation essential to the common effort, adjustment could be made.

Reciprocal aid should be recorded as received from the government providing it. The receiving agency should report the articles, services, facilities, or other benefits received and their cost as furnished by the providing authorities. Where money is received, the equivalent amount in dollars should be paid into the Treasury by the agency concerned in accordance with Section 6 (b) of the Lend-Lease Act.

3. Aid by Exports to the United States or upon its Order. Military equipment transferred to the United States or the United Kingdom or a Dominion receiving Lend-Lease should be transferred as reciprocal aid. Whether other goods exported to this country should be so treated must depend in large part upon the British dollar position. If the British dollar position is or should become such that the dollar proceeds of imports into this country are  
needed

ed to meet essential dollar requirements here, the possibilities of reciprocal aid by furnishing us with imported materials as reciprocal aid are limited. This requires continuous study of the facts.

In some cases it will doubtless be necessary, regardless of exchange considerations, to continue to purchase for dollars in order to stimulate production and obtain the products which we require.

4. Maintenance of British Dollar Resources. The British have dollar obligations here and elsewhere which will continue. So it is not possible to get far in a discussion of reciprocal aid without considering the British dollar needs and assets. Such a consideration requires conclusions on the following points:

a. The amount of the dollar balance which the British need to maintain as a working balance for the needs of the working area, or that part of it which operates through the pool. We understand that Mr. Keynes advanced the figure of \$600,000,000.

b. The amount of the drain upon the dollar funds over the same periods, including decision upon pre-Lend-Lease contracts.

c. The amount of the income to the pool over the same periods

... from payments for imports or services, gold trans-  
... and other sources.

... 3. The possibility of some guarantee by this country  
... if necessary, dollars will be available within the  
... limitations of a plan embodying the conclusions reached on  
... a, b, and c above.

If conclusions can be reached on these points after  
discussion with the British and the Dominions, methods by  
which they could be effectuated are:

1. The British should continue their efforts to main-  
tain the account themselves, by sale to us of supplies and  
services not received on a reciprocal aid basis, by dollar  
payments for the pay of troops and personnel in British or  
Commonwealth areas, and by some understanding on gold transactions;

2. If those efforts prove inadequate, or if it seems  
advisable, through further war-conversion of the British or  
Commonwealth economy, to eliminate certain transactions which  
do not produce dollars, such as the production and sale of gold  
jewelry, or the sale for dollars of material which might  
be furnished as a matter of reciprocal aid, the dollar  
position of the sterling area might be built up and main-  
tained at the desired level through the use of one or more  
of the following methods alone or in combination;

a. Buying

a. Buying pounds with dollars, and holding the pounds through the Exchange Stabilization Fund. Probably no new legislation would be needed, although if there are pre-war commitments to Congressional committees, to the effect that the Fund would not purchase the currency of a belligerent, it may be desired to clear with the Congressional committees before instituting such action.

b. Take-over by the Army and Navy of B.P.M. contracts now in process; this is a temporary, but probably not a full solution or an adequate one.

c. Enlarge or contract the scope of Lend-Lease financing for British dollar purchases in the United States, within the limitation of present categories of permitted purchases, to the extent needed to achieve the \$600,000,000 figure. It may even be desirable to reduce the British need for dollars by buying certain South American materials for dollars, and Lend-Leasing them to the British, although this process is subject to great abuse, and should be safeguarded.

d. Increase in British dollar receipts, through payment with dollars of some of the expenses of our troops

troops which we have above proposed to be met locally as reciprocal aid.

e. A dollar loan, with or without interest, if permitted by law.

We suggest that the ultimate burden of long run imbalance in the trade and exchange relations of the United States and the sterling area, occasioned by war-time transactions, be borne by the Lend-Lease account, not the Stabilization Fund, although the Fund can act quickly and in the first instance.

The adjustment of accounts needed to maintain the British dollar position, and otherwise to administer an agreement covering the points in this memorandum, requires first, an understanding with respect to British and Dominion policy in maintaining the gold and dollar position of the sterling area, and in spending the dollars provided by us, second, a small standing financial committee, representing both the British and the Dominions, and the Treasury, Lend-Lease Administration, the State Department, and, for special problems, Army, Navy, and Agriculture.

Administration. The plan proposed, involving both a guarantee for the dollar position of the sterling area, and

and

... establishment of reciprocal aid relations between  
... States, the United Kingdom and the Dominions,  
... permit a solution of the political and diplomatic  
... as the financial problems presented by the propo-  
... Our guarantee should relieve possible British fears that  
... the Lend-Lease agreements with the Dominions would  
... up the dollar pool. The mechanism for reciprocal aid  
... meet the requirements of the situation from our point  
... view, so far as the limitations inherent in it permit.



## TREASURY DEPARTMENT

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PROCUREMENT DIVISION

WASHINGTON

*To the Secretary*

March 2, 1942

MEMORANDUM TO MR. SWOPE: *ES*

Herewith photostatic copy of the status report of Russian purchases as of February 28th. The figures have been revised according to the latest information as of that date and the situation has been bettered through additional W. P. B. allocations. There are, however, existing deficiencies and we were informed by W. P. B. this morning that they are now preparing a detailed report in response to your letter to Mr. Nelson, which will be ready for you the latter part of this week and should furnish complete information as to what may be hoped for by April 1st.

I suggest when the report is received you may want a letter prepared for the Secretary to the President advising as to any indicated deficiencies by April 1st, as there are certain items for which the allocations will not meet Protocol requirements by April 1st and the reasons applicable to each item will be listed in the W. P. B. report.

*Clifton E. Mack*  
Clifton E. Mack  
Director of Procurement

FOR THE

BUY

## U.S.S.R. MOSCOW PROTOCOL AGREEMENT

STATEMENT BY THE U. S. TREASURY DEPARTMENT, PROCUREMENT DIVISION, ON STATUS OF PURCHASES UNDER THE AGREEMENT - AS OF FEBRUARY 28, 1942

MATERIAL	TOTAL PROTOCOL REQUIREMENT	SHIPMENTS REQUIRED BY PROTOCOL BY APRIL 1, 1942	AMOUNT FOR WHICH REQUISITIONS RECEIVED	AMOUNT ALLOCATED	AMOUNT PURCHASED	TOTAL SHIPMENTS ANTICIPATED BY APRIL 1, 1942
<u>NON-FERROUS METALS</u>						
Aluminum	18,000 Tons	12,000 Tons	18,000 Tons	12,000 Tons	18,000 Tons	12,000 Tons
Abrasives	Not specified	Not specified	\$2,953,583.47		\$866,483.47	\$866,483.47
Nickel	1,200 Tons	1,200 Tons	1,200 Tons	1,200 Tons	1,200 Tons	1,200 Tons
Molybdenum	2,700 "	1,800 "	2,700 "		2,700 "	2,700 "
Roller Cartridge Brass Strip	45,000 "	30,000 "	45,000 "		45,000 "	30,000 "
Iron Electrolytic	6,750 "	4,500 "	4,875 "	6,750 Tons	4,875 "	6,750 "
Copper Goods (Tubing and other items of Copper)	2,700 "	1,800 "	3,050 "		3,055 "	1,800 "
Ferro-Silicon	2,700 "	1,800 "	2,700 "	1,800 Tons	2,700 "	1,800 "
Ferro-Chromium	1,800 "	1,200 "	1,800 "	1,200 "	1,800 "	1,200 "
Nichrome Wire	180 "	120 "	260 "	140 "	260 "	140 "
Electrodes, Graphite	3,600 "	2,400 "	3,900 "	887.9 "	3,900 "	887.9"
Marine Cable	900 Kilo.	600 Kilo.	175 Kilo.		175 Kilo.	175 Kilo.

VARIOUS INDUSTRIAL EQUIPMENT

\$27,000,000.00	\$18,000,000.00	\$23,314,620.00	\$19,506,144.32
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FURNACES

Not specified	Not specified	\$ 2,951,730.00	\$ 2,951,730.00
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## U.S.S.R. MOSCOW PROTOCOL AGREEMENT

STATEMENT BY THE U. S. TREASURY DEPARTMENT, PROCUREMENT DIVISION, ON STATUS OF  
PURCHASES UNDER THE AGREEMENT - AS OF FEBRUARY 28, 1942

MATERIAL	TOTAL PROTOCOL REQUIREMENT	SHIPMENTS REQUIRED BY PROTOCOL BY APRIL 1, 1942	AMOUNT FOR WHICH REQUISITIONS RECEIVED	AMOUNT ALLOCATED	AMOUNT PURCHASED	TOTAL SHIPMENTS ANTICIPATED BY APRIL 1, 1942
<b>STEEL</b>						
Finplate	36,000 Tons	24,000 Tons	36,000 Tons	36,000 Tons	36,000 Tons	24,000 Tons
Barbed Wire	36,000 "	24,000 "	35,015 "	35,015 "	35,015 "	24,000 "
High Speed Tool Steel	900 "	600 "	1,000 "	1,000 "	1,000 "	800 "
Tool Steel	4,500 "	3,000 "	2,414 "	2,387 "	2,387 "	1,511 "
Calibrated Steel	Not specified	Not specified	5,960 "	5,960 "	5,960 "	5,960 "
Steel Wire	63,000 Tons	42,000 Tons	7,792 "	7,307 "	7,307 "	4,202 "
Steel Billets (Shell Steel)	72,000 "	48,000 "	72,000 "	16,000 "	16,000 "	10,000 "
Steel Alloy Tubes	1,800 "	1,200 "	130 "	70 "	70 "	35 "
Stainless Steel Wire	180 "	120 "	22 "	22 "	22 "	12 "
Cold Rolled Steel Strips	72,000 "	48,000 "	47,815 "	47,815 "	47,815 "	28,592 "
Cold Rolled Steel Sheets	72,000 "	48,000 "	75,660 "	75,660 "	75,660 "	48,000 "
Alloy Steel Ball Rod	Not specified	Not specified	500 "	500 "	500 "	350 "
Hot Rolled Steel	63,000 Tons	42,000 Tons	60,000 "	49,500 "	49,500 "	10,000 "
Steel Rails	Not specified	Not specified	60,000 "	10,000 "	10,000 "	10,000 "
Steel Wire Rope	10,800 Tons	7,200 Tons	None	None	None	
Hard alloy and Cutting Steel	Not specified	Not specified	400 Tons	400 Tons	400 Tons	200 "

# TREASURY DEPARTMENT

140

## INTER OFFICE COMMUNICATION

DATE March 2, 1942

TO: Secretary Morgenthau

FROM: Mr. White

SUBJECT: Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the 10-day period ending February 20, 1942.

### 1. Exports to Russia

Exports to Russia, as reported to the Treasury during the ten-day period ending February 20, 1942 amounted to more than \$6 million. Landplanes and military tanks and parts accounted for more than one-half. (See Appendix C.)

### 2. Exports to Free China and Burma

Exports to Free China during the period under review amounted to \$4,255 thousand. The principal items were landplanes, motor trucks and chassis and printed matter. (See Appendix D.)

Exports to Burma amounted to about \$583 thousand. Motor trucks accounted for about one-third of this total. (See Appendix E.)

### 3. Exports to France

No exports to France were reported during the period under review.

### 4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A.

SUMMARY OF UNITED STATES  
DOMESTIC EXPORTS TO SELECTED COUNTRIES  
AS REPORTED TO THE TREASURY DEPARTMENT  
FROM EXPORT DECLARATIONS RECEIVED  
DURING THE PERIOD INDICATED 1/

July 28, 1941 to February 20, 1942

(In thousands of dollars)

	July 28 to <u>Jan. 31</u>	Period ended <u>February 10</u>	Period ended <u>February 20</u>	Total <u>Domestic Exports</u>
U. S. S. R.	\$108,157	\$ 13,315	\$ 26,174	\$ 147,646
Free China	37,093	4,889	4,853	46,835
Burma <u>2/</u>	9,445	1,054	583	11,082
France <u>3/</u>	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	4	-	2	2
Spain	2,493	144	2	2,639
Switzerland	6,785	33	115	6,933
Sweden	12,157	1,123	569	13,849
Portugal	5,474	223	548	6,245
French North Africa <u>4/</u>	1,747	4,536	-	6,283

Treasury Department, Division of Monetary Research

February 26, 1942.

- 1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular week. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.
- 2/ From September 11, 1941 to date — It is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.
- 3/ Includes both Occupied and Unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.
- 4/ Includes Morocco, Algeria and Tunisia.

## APPENDIX B

Exports from the U. S. to Free China, Burma and  
U.S.S.R. as reported to the Treasury Department  
July 28, 1941 - February 20, 1942  
(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>Burma 3/</u>	Exports to <u>U.S.S.R.</u>
July 28 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281 2/		5,217
Sept. 15 - Sept. 20	3,822 2/		752
Sept. 22 - Sept. 27	110	449	2,333
Sept. 29 - Oct. 4	1,225	684	323
Oct. 6 - Oct. 11	5,312	1,157	6,845
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	403	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,552
Nov. 10 - Nov. 15	2,851	88	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,364	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,337	18	12,040
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,993
Jan. 5 - Jan. 10	91	1,073	8,247
Jan. 12 - Jan. 17	1,695	447	5,874
Jan. 19 - Jan. 24	-	-	3,885
Jan. 26 - Jan. 31	6,938	923	9,608
Feb. 1 - Feb. 10 4/	4,889	1,054	13,315
Feb. 10 - Feb. 20	4,853	583	26,174
Total	49,438	9,969	147,999

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week.

## APPENDIX C

Principal Exports from U. S. to U.S.S.R.  
as reported to the Treasury Department  
during the ten-day period ending  
February 20, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 26,174
Principal Items:	
Bombers	4,912
Military tanks (light)	4,641
Landplanes (pursuit, interceptor and fighter)	2,831
Brass and bronze plates and sheets	1,961
Motor tracks and chassis	1,224
Military tanks (medium)	1,060
Explosive shells and projectiles	1,025
Wool cloth	881
Landplanes (partial shipment)	708
Relief supplies (surgical and hospital)	640
Copper wire (insulated)	555
Soft leather	466
Milling machines	399
Trinitro toluene (T.N.T.)	383
Copper wire (bare)	329
Metal-grinding machines and parts	318
Metallic cartridges	273
Other power-driven metal-working machinery and parts	271
Military tank parts and accessories	261
Aluminum tubing	208
Leather	163
Lubricating oils	159
Nitrocellulose	153
Machine and sub-machine guns	149
Toluene	144
Molybdenum salts and compounds	124
Lard	123

## APPENDIX D

Principal Exports from U.S. to Free China  
as reported to the Treasury Department  
during the ten-day period ending  
February 20, 1942

(Thousands of Dollars)

TOTAL EXPORTS

\$ 4,853

Principal Items:

Landplanes (pursuit)	936
Motor trucks and chassis	793
Printed matter (bank notes)	723
Metallic cartridges and belt links	313
Explosive shells and projectiles	308
Smokeless powder	291
Landplanes (partial shipment)	265
Machine and heavy ordnance guns	217
Auto replacement parts	77
Relief supplies (surgical and hospital)	62
Aircraft parts and accessories, n.e.s.	60

## APPENDIX E

Principal Exports from U. S. to Burma  
as reported to the Treasury Department  
during the ten-day period ending  
February 20, 1942

(Thousands of dollars)

TOTAL EXPORTS

\$ 583

Principal Items:

Metallic cartridges	139
Motor trucks (1 to 1 $\frac{1}{2}$ tons)	128
Motor trucks (1 $\frac{1}{2}$ to 2 $\frac{1}{2}$ tons)	65
Aircraft propellers and parts of	43
Steel sheets, black	41
Evaporated milk	33
Auto replacement parts	25
Rayon piece goods	21

TREASURY DEPARTMENT

146

INTER OFFICE COMMUNICATION

DATE March 2, 1942

to Secretary Morgenthau

from Mr. White *W.D.W.*

subject: Status of Stabilization and Gold Purchase Agreements

1. Stabilization Agreements in Operation.

Country	Dated	Expires	Amount		Collateral
			Commitment	Outstanding	
<i>1/</i> Brazil	7/15/37	7/15/42	\$60,000,000	None	None gold
China	7/14/37	6/30/42	50,000,000	\$19,112,500	\$19,379,000 gold
China	4/ 1/41	6/30/42	50,000,000	None	None required

2. Stabilization Agreements Concluded but not yet ratified

Argentina	1/1/41	<i>6/30/41<sup>2/</sup></i>	\$50,000,000	None	None required
<i>2/</i> Cuba	11/1/41	6/30/43	40,000,000	None	None required
Ecuador	3/1/42	6/30/43	5,000,000	None	None required

3. Gold Purchase Agreements

Country	Dated	Delivery by	Commitment to buy	Gold still undelivered	Advance still outstanding
<i>1/</i> Russia	10/10/41	4/8/42	\$31,605,000	\$11,866,000	\$ 9,803,000 <i>3/</i>
China	1/ 3/42	7/2/42	\$21,070,000	21,070,000	20,000,000

*1/* This agreement also provides for sale to Brazil of up to \$60,000,000 in gold, of which \$29,465,000 has been sold.

*2/* Argentines informed agreement can be revived on ratification.

*3/* Original advance was \$30,000,000.

Treasury Department  
Division of Monetary Research

Date..... March 2..... 1942

To: Secretary Morgenthau

From: Mr. White

We are advised by the State Department that on March 6 the Nicaraguan Foreign Minister and Finance Minister will arrive in Washington and will probably want to discuss a credit for the use of the Exchange Equalization Fund of the National Bank of Nicaragua.

Apparently Nicaragua hopes that the Export-Import Bank will make a loan of \$800,000 for the above purpose to follow up the \$500,000 loan it extended to that country in 1939. However, since the proposed credit is avowedly for exchange stabilization, the two Nicaraguan Cabinet officers may wish to meet with you.

MR. WHITE  
Branch 2055 - Room 214

148

March 2, 1942

Mr. Livesey

Mr. Dietrich

Will you please send the attached cable to the American Embassy, Chungking  
"for Adler from Fox".

FD:bj:3-2-42

TO ADLER, CHUNGKING, CHINA

FROM FOX

1. Evans of American Red Cross has raised question of transfer of funds to China. He raises objection to conversion of United States dollars into rupees under General License 75; reports that Board refused to act in my absence and has requested that I instruct Board to waive General License 75.
2. Before the matter can be taken up intelligently with the Treasury, full facts are needed. I am supposed to have the full facts, but these facts are no longer clear to me.
3. What hardships are imposed on the American Red Cross in employing General License 75?

Copy: 10:3/2/42

150

March 2, 1943

Mr. Livesey

Mr. Dietrich

Will you please send the attached cable to the American Embassy, Chungking  
"to Miller from Fox for transmission to the Stabilization Board".

FD:bj:3-2-42

February 26, 1942

TO AULAN, CHENGKING, CHINA

FROM FOX FOR TRANSMISSION TO THE STABILIZATION BOARD

1. The United States Treasury has accumulated a backlog of about 40 cases involving either (1) transfers from United States dollar accounts in the names of individuals or firms held by appointed banks in Occupied China to accounts in the United States in the names of the individuals or firms, or (2) transfers from accounts carried by banks in the United States in the names of individuals or firms domiciled in Occupied China. The total value of these dollar transfers is about U.S.\$500,000. American nationals are the beneficiaries of nearly all of the approximately U.S.\$500,000.
2. These cases have accumulated over a period of time, all before December 7, and many of them a considerable period of time previous to December 7. These applications have not been acted upon because of the desire of the United States Treasury to obtain the prior approval of the Stabilization Board, even though this delay is resulting in personal hardships to individual Americans. The licensing of these transactions will not result in a drain on the Board's resources.
3. I have examined the individual applications; find some of only indirect interest to the Board, and see no objection to the United States Treasury approving these transactions. I find confirmation of disposition of United States Treasury not to act on cases in-

-2-

volving China without the Board's previous approval. If the Board's permission is granted, the United States Treasury is prepared to license these transactions.

4. I recommend that the Board inform the United States Treasury that it has no objection to the above transactions being licensed by the United States Treasury and that I be recorded as joining in such approval.

5. A reply to your cable of February 3, 1942, No. 54, is being prepared and shall be sent to you as soon as possible.

127/afn

2/26/42

Copy: 127/3/2/42

DEPARTMENT OF STATE  
WASHINGTON

March 2, 1942

In reply refer to  
311

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no. 58, dated February 28, 1942, from the American Commissioner, New Delhi, India, reporting that the American Commissioner was informed officially that the Reserve Bank of India has been authorized to buy in India up to \$250,000 in United States currency in paper currency for the Bank of England.

## Enclosure:

From Commissioner,  
New Delhi, no. 58,  
February 28, 1942.

COPY: dmt 3/2/42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Commissioner, New Delhi, India.

DATE: February 28, 1942, 1 p. m.

NO.: 58.

RUSH.

I have been informed officinally that the Reserve Bank of India has received authorization to purchase in India up to \$250,000 paper currency of the United States for the Bank of England at 4.15 dollars to a pound sterling or about 320 rupees per hundred dollars. Accordingly the Reserve Bank is buying \$250,000 of American currency at 319 rupees per hundred dollars and will not "for the present" put the Treasury's cancellation plan into effect. The Treasury's comments are requested since its plan envisaged maintenance at par of the dollar currency value, while the present purchase plan does not appear to achieve this objective.

WILSON

This telegram refers to the Department's telegram No. 27, dated February 5, 1942, 8 a.m., to the American Commissioner, New Delhi, India.

COPI: dn: 3/2/42

March 2, 1942

Mr. Livesey

Under Secretary Hall

Referring to telephonic conversation, will you please send the following cable to the American Legation, Cairo, Egypt.

From Treasury.

1. To facilitate the negotiation of checks drawn on the Treasurer of the United States and United States currency, the following procedure is suggested.

2. All United States dollar checks drawn on the Treasurer of the United States negotiated by Barclays Bank (D. C. & O.), Cairo are to be delivered to the American Legation, Cairo, 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 by bank. Upon receipt of this advice, Treasury will effect payment in corresponding amount to Barclays Bank (D. C. & O.), New York, for account of its Cairo Branch.

(D. C. & O.)  
Consular officer should instruct Barclays Bank to use all possible diligence in identification of payee and determining validity of endorsements. Barclays Bank (D. C. & O.), Cairo, should endorse checks as follows: *Quote* Pay to the order of the Treasurer

of the United States for credit of our account with Burulaya Bank (D. O. & O.), New York. Signal Burulaya Bank (D. O. & O.), Cairo, Egypt. Treasury will look to Burulaya Bank (D. O. & O.), Cairo, only for usual guarantee under laws applicable in Egypt.

Treasurer officer should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by surface means available. Second copy of list should follow by separate courier at earliest possible date. Third copy should be retained by consular officer.

3. In the case of excess United States paper currency, instruct Burulaya Bank (D. O. & O.) to prepare list in quadruplicate showing the amount of each denomination of each kind of currency separately, and for Federal Reserve notes and for Federal Reserve Bank notes, the list must show separately the amount of each denomination of the issue of each bank, and currency in half vertically and stamp or write name of bank on each half in ink. Then deliver both halves and list in quadruplicate to American Legation, Cairo.

4. Consular officer will verify amount of currency delivered to him against list prepared by bank and then he will wire Treasurer of United States through State Department the amount of currency delivered to him. When Treasury receives this advice, payment in corresponding amount will be made to Burulaya Bank (D. O. & O.), New York, for account of the Cairo branch. Upon receipt and examination Treasury reserves right to claim reimbursement for any currency which is not genuine. Each set of halves should be forwarded by

- 3 -

separate carrier accompanied by a copy of the list. The third copy of list should be forwarded by still another carrier. American consular officer will retain fourth copy of list.

5. Consular officer should make no arrangements for insurance as shipments of both checks and currency will be covered by Government Losses in Shipment Act.

6. Please advise Barclays Bank (D. C. & O.), Cairo, of appropriate parts hereof with the suggestion that it advise its branches in adjacent countries and banks in Cairo of these arrangements.

7. Please advise Major H. H. Odell, F. D., U. S. Army, Cairo, of the contents of this message and inform other United States Government officials appropriate parts hereof.

8. To minimize number of checks drawn on Treasurer of United States, suggest that 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 Barclays Bank (D. C. & O.), Cairo."

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 with Sec. V - 45, Foreign Service Regulations.

FD: dm: 3/2/42

## TREASURY DEPARTMENT

158

## INTER-OFFICE COMMUNICATION

DATE March 2, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	264,000
Purchased from commercial concerns	£16,000

Open market sterling held at 4.03-3/4, with no reported transactions.

The Canadian dollar continued to move off and closed at a discount of 11-3/4%. This currency has shown no pronounced tendency of late. A month ago it was quoted at 11-5/8%.

The Venezuelan bolivar advanced 30 points to close at .2795.

The Cuban peso improved to a premium of 3/8% offered, as compared with 1/4% on Saturday.

Other closing quotations in New York were as follows:

Argentine peso (free)	.2365
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5275

In order to increase the Stabilization Fund's gold balance, we purchased \$20,000 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 42.67¢.

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.

March 2nd, 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.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

APTEL No. 70

Information received up to 7 A.M., 28th February, 1942.

1. NAVAL

(Several) Japanese warships and transports approaching BATAVIA and SURABAYA on 27th were engaged by Allied warships. No details have yet been received except that one H.M. Cruiser was damaged and 2 Dutch Cruisers were disabled. An 8,000 ton British tanker in outward convoy was torpedoed 400 miles S.S.E. of HOLLANDIA on the 24th and broke in two. Salvage is thought possible.

2. MILITARY

LIBYA. 26th. Sand storms continued and prevented observation by our patrols.

BURMA. On 25th, it was reported that owing to heavy casualties inflicted during our withdrawal across the SITTANG the enemy had been unable to make any attempt to cross. On 27th, however, some enemy were reported to have crossed and to be astride the road and railway at PYNBON sixteen miles north of PEGU. RANGOON is now practically deserted.

3. AIR OPERATIONS

WESTERN FRONTIER. 26th/27th. Sixteen R.C.A.F. bombers took part in the raid on KIEL, one of them did not return. Three R.A.A.F. aircraft carried out sea-mining without casualties.

27th/28th. 116 aircraft sent out. KIEL - 68, WILHELMSRAVEN - 33, sea-mining - 15. Three are missing.

LIBYA. 25th/26th. Our aircraft bombed BERCA and MARTUBA aerodromes and laid mines in BENGHAZI Harbour.

26th/27th. TRIPOLI Harbour was bombed and a ship set on fire.

BURMA. 26th. During a Japanese raid on RANGOON our fighters shot down 22 enemy aircraft and possibly destroyed others.

SUMATRA. 26th. Eleven enemy fighters were destroyed by our aircraft which were attacking shipping off BANKA ISLAND. One of our aircraft is missing.



UNITED STATES GOVERNMENT  
COORDINATOR OF INFORMATION  
WASHINGTON, D. C.

161

March 2, 1942

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

Dear Henry:

You may be interested in the attached summary of the British Home Intelligence report for the week ending February 23. We have just received this from our London office.

Sincerely,

*Bill*  
William J. Donovan

Enclosure

The following summary is for the week ending February 23 and therefore contains no reference to the Churchill and Roosevelt speeches of Monday and Tuesday.

#### PUBLIC MORALE

Unmistakable though partial recovery is noted. Although feeling angry and confused and even some realization of the possibility of defeat, the majority of the regions suggest that "the slump in spirit caused by the fall of Singapore seems to have passed away and morale, on the whole, is proving resilient after a succession of hard blows". But now "the same spirit of national resurgence which was so inspiring" after Dunkirk.

#### ATTITUDE TOWARD THE GOVERNMENT

Lack of confidence in the "higher direction of the war" continues in spite of the cabinet changes. British methods are unfavorably contrasted with Australia's "total mobilization of resources and manpower". There is strong feeling in favor of putting the country on an emergency basis. "If they will strike while the iron is hot, the government now has a golden opportunity."

#### ATTITUDE TOWARD CHURCHILL

The cabinet changes "have done much to restore his popularity". There is relief not unmixed with surprise that he has "at last yielded to pressure". "There is some feeling that he has conceded just sufficient ground to his critics to avert a major crisis and only just in time". There is relief that Churchill is freed of routine duties. In regard to his retaining the post of Defense Minister "on the balance the view is taken that a Prime Minister's first preoccupation in war time must naturally be with defense in its broadest sense". Concerning Churchill personally there are indications

- 2 -

that he has not yet recovered the complete command of public confidence he enjoyed a year ago, although a speculation that he will be forced from office has ceased.

#### CRIPPS

He enjoys universal approval on three counts:

a. "Relief that a personality has loomed up who should really be able to take some of the strain off Churchill's shoulders and who could succeed him if necessary".

b. "Cripps' presence in the war cabinet will mean a closer more productive relationship with Russia."

c. Hopes of gingering up the cabinet. "Now we shall see more butting in instead of standing back." The Cripps broadcast was felt to be the direct cause of applications for work by women not hitherto employed in the war effort.

#### CONCERNING BEAVERBROOK

Mixed feelings. Though ominous that the one man who has no fear of red tape should go. Skepticism about reasons of health given for his departure, Do not think he gets along with Cripps and Bevin.

#### OTHER CABINET CHANGES

They are widely acclaimed. There is special satisfaction that Moore-Barbizon and Margesson are out. The retention of Atlee met some disparagement as politically caused.

#### FAR EAST

The angry criticism has somewhat died down, giving way to anxiety over Burma. People with relatives out there are very bitter. "The government knew Singapore could not hold out so it was a murderous thing to send so many men out there." There are sour comments on lack

- 3 -

of air support, and on "sacrifices of junior officers and men to the inefficiency of those higher up." There is fear that the leaders lack aggressive spirit and tenacity. Scathing comparisons are made to MacArthur and his endurance and resources in defense of the Philippines.

#### INDIA

There is growing anxiety. The impression is current that Churchill personally is responsible for British slowness in making a move. Great satisfaction was felt over Chiang's visit but also some "feelings of humiliation".

#### LIBYA

Pessimism is, however, no longer regarded as of primary importance.

#### NAVY

Confidence remains high with, however, some fears that it is short of warships.

#### ARMY

Very noticeable and widespread skepticism about the leadership.

#### R.A.F.

There is a further decline in confidence accentuated by the channel episode. Disappointment that the prophecy that "Germany was going to be decisively bombed this winter" has not proved true. There is disquiet lest the entire bombing policy may be wrong and the question is raised: are the initiative and imagination of the staff equal to the courage and skill of the pilots?

#### INFORMATION

Irritation is caused by minimizing of bad news. Some of the public is again demanding that BBC offer bare official statements instead of "upholstered" news.



UNITED STATES GOVERNMENT  
COORDINATOR OF INFORMATION  
WASHINGTON, D. C.

165

March 2, 1942

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

Dear Henry:

The attached memorandum is the  
weekly review of German Home Propaganda.

Sincerely,

*Bill*  
William J. Donovan

Most noteworthy feature is the almost total lack 166  
of any visible attempt to tide over or explain away the  
great personal hardships of life in Germany. Coal, to-  
bacco, and vegetables are very scarce; the potato ration  
is one pound weekly, transport is inconvenient and crowded;  
schools are closed; businessmen are faced with closedown  
or cutdown and formidable state control; workers are con-  
fronted with the choice of speed up or call up. The  
heavy restriction of giving information to the enemy is  
probably the chief reason for silence.

Russia is still the most mentioned subject, with more  
frequent references to a Spring offensive and intimations  
that, despite the hardest winter in a century, Germany is  
successfully regaining the initiative.

Stalin's order of the day was suppressed inside  
Germany as his disclaim of any intention to destroy Germany  
cuts the roots out from under the main fear which Goebbels  
has fostered. Vansitart's speech was garbled and Roosevelt's  
given as a series of distorted quotations interspersed with  
a torrent of invective. The promise to liberate Austria,  
made by Churchill, was played down as sentimental day-  
dreaming.

Attention given to the war at sea is steadily increas-  
ing, especially U-boat successes in American coastal waters  
and the Caribbean. The following quotation is an example:  
"German submarines destroyed in four weeks more shipping  
space than Americans built in nine months."

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Japan is being pictured as the absolute monarch of the southwestern Pacific, and the helplessness of the British is stressed in quotations such as: "In sixty six days Britain has lost mastery which took one hundred and fifty years to attain." American help is derided, with such comments as: "American talks a great deal, but has neither the means nor the intention to be a really effective help. It would seem that the Americans find the risk too great."

Cripps is called Stalin's loudspeaker, and British cabinet changes are represented as a landslide toward Bolshevism.

The Riom trial received little mention.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE MARCH 2, 1942

TO: Secretary Morgenthau  
FROM: Mr. Kamarck  
SUBJECT: Summary of Intelligence Reports

Air Fleet

So far as it can be made out, the Japanese are using about 12 squadrons of heavy bombers (144 planes) in the Dutch East Indies.

(U.S. Operations Report, February 25, 1942)

AFSA

Rommel has obtained substantial reinforcements with which the British are unable to compete, due to commitments in other theatres. Further British retreat is likely.

(C.O.I., U.K. Ministry of Information, Empire Guidance)

German Navy

The concentration of German naval strength at Trondheim has been completed. Aerial reconnaissance on February 24th found the battleship Tirpitz in its usual berth, a pocket battleship and a heavy cruiser at the head of the fjord.

(U.S. Operations Report, February 25, 1942)

### Swedish Army Maneuvers

The Swedish Army carried on its extensive winter maneuvers in Jämtland Province in the last week in February. (These are the maneuvers for which we permitted petroleum to be shipped to Sweden. The province where the maneuvers took place is across the border from Trondheim, Norway. Trondheim is strategically the best located place for an Allied invasion of Scandinavia. A German invasion of Sweden, on the other hand, would mainly strike across from Denmark and from Oslo, Norway and only secondarily from Trondheim.)

If the Swedish maneuvers are to prepare against a German invasion, the question comes up: Why were there no maneuvers in the southern provinces where Sweden is most threatened by Germany?)

("News from Sweden", The American Swedish News Exchange, February 25, 1942)

### Finland

Germany has promised Finland a monthly allowance of 20,000 tons of bread grain and 1,000 tons of butter for the next six months. It will not lead to a substantial increase in the Finnish scale of rations but should prevent a further deterioration in the Finnish food position. Finnish rations are exceedingly small, compared with those of Germany, and a further deterioration might have seriously affected Finland's will and power to remain a combatant. (The Germans show a recognition of the importance of the aid Finland is giving them, which we appear to lack.)

(U.K. Operations Report, February 25, 1942)

### German Home Propaganda

In the German propaganda directed toward the home front, hopes are being aroused of a great spring offensive in Russia. Stalin's speech on Red Army Day was completely suppressed... "as his disclaim of any intention of destroying Germany cuts the roots out from under the main fear which Goebbels has fostered."

(C.O.I., March 2, 1942)

Voice of the Chief

"It is typical of the S.S. Commune to blame the loss of Dorogobuzh (town east of Smolensk) on the Air Force. Now they say: 'There wasn't enough flyer protection there'; the Air Force failed, mind you, not the S.S. Squadrons, although they were to hold the Dorogobuzh sector at all costs and didn't hold it.

"The inspector of pursuit flyers, Colonel Gallant, blames it all on the squadron of Moelders. Perhaps Mr. Colonel Gallant has not yet overcome his old grudge against everything that has to do with Moelders? In any case he found it proper to express his high and mighty displeasure to the squadron of Moelders instead of protecting his flyers against such unjustified and cheap reproaches.

"But what does one really expect from a pursuit squadron whose staffs only have limited striking force left, whose machines for action in this weather can only take off twice a day and then are supposed to protect the whole tremendous region of Vyazma, Bryansk, all by itself.

"From 4 in the morning on, the ground personnel are busy getting the machines ready to start. It is no pleasure crawling around in the motors at 40 to 45 degrees below zero, warming them up with hot air hoses - letting them run and continuously keeping the runway free of the snow. All this alone increases the pre-flying time two or three hours for every single ME 109.

"For example, the pursuit group of Leppner had to fly on three successive mornings in vain, because the S.S. idiots had sent through a report that long distance reconnaissance planes were regularly flying on reconnaissance over the railway line between 7 a.m. and 9 a.m. Afterwards, it turned out that the S.S. observation posts had not only given a false flying direction but that it was not even certain whether they were enemy planes at all.

"Then to be sure Major Beck gave the command that until further notice they should not start off at all any more on a report of this particular S.S. service station. In view of such things which have occurred between the Moelders pursuit squadron and the gentlemen of the S.S., it is all the more difficult to understand how a man like Colonel Gallant could so readily support the attempt to shove the blame for an obvious failure of the S.S. onto the shoes of the squadron.

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"Next the S.S. claims that the airports are too far back to bring the pursuit flyers to the front in time. Such talk is nonsense. The dromes could not be placed farther up for the simple reason that the pursuit planes need starting room in order to reach the height and fighting formation necessary for air fighting. Besides, at a shorter distance from the front, the Russian machines would constantly attack their airports.

"Colonel Gallant knows all this just as well as the next one who understands anything about war. But he makes no use of his knowledge and secretly and unreservedly goes over to the side of the S.S. and works against the flyers. One can only ask whether this whole turmoil which has broken loose, is perhaps nothing more than another move by the S.S. Commune to get itself its own independent air force. Perhaps under General of S.S. Flyers Gallant."

(Foreign Broadcast Monitoring Service, Federal Communications Commission, February 27, 1942)

RESTRICTED

MID 119.1 No. 646 M.I.D., W.D. 11:00 A.M., March 2, 1942.  
 Situation 8-11-41

SITUATION REPORTI. Pacific Theater.

Philippines: No new developments to report. Burma: The Rangoon-Mandalay road has been ~~cut~~ by the Japanese who have brought up reinforcements. Defending forces continue to hold local air superiority, but on a small scale. Java: Enemy forces are reported by the press to have made three landings on Java, two in force. Northwest Bantam was the location of one landing, while major forces were put ashore in the bay west of Indramayu, and on a wide front about thirty kilometers west of Rembang. From the Indramayu area, the enemy is reported to have penetrated approximately 40 miles to capture Subang and cut the coastal railway. A naval engagement preceded the landings and casualties were suffered by both sides. Australia: Port Moresby was attacked again by enemy aircraft. The R.A.A.F. successfully attacked Casmeta, New Britain.

II. Western Theater.

Heavy antiaircraft fire was reported from the Calais and the German-occupied French Coastal Areas across the Strait of Dover on March 2.

III. Eastern Theater.

The German High Command admits heavy defensive fighting in the Crimea, Donets Basin, and in vicinity of Staraya Russa. There is no reported change in the general situation. (A situation map will not be issued this date.)

IV. Middle Eastern Theater.

Press reports contact between an Axis column and British forces east of Mechili. The Axis column withdrew after drawing the fire of British artillery. Air activity in North Africa is largely restricted to attacks on rear areas and supply routes. The Italian High Command claims that 12 British planes were shot down by German planes on March 1.

RESTRICTED

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, March 3, 1942.  
3/2/42

Press Service  
No. 30-54

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated March 4 and to mature June 3, 1942, which were offered on February 27, were opened at the Federal Reserve Banks on March 2.

The details of this issue are as follows:

Total applied for - \$510,228,000  
Total accepted - 150,477,000

Range of accepted bids: (Excepting one tender of \$210,000)

High	- 99.962	Equivalent	rate	approximately	0.150	percent.
Low	- 99.941	"	"	"	0.233	"
Average						
Price	- 99.944	"	"	"	0.222	"

(46 percent of the amount bid for at the low price was accepted)

-c0o-

March 3, 1942  
9:27 a.m.

John J. McCloy: Hello.

HMJr: Morgenthau.

Mc: How are you?

HMJr: Fine. I read your speech with great interest on Sunday.

Mc: Oh, yes.

HMJr: And if you happen to be free Wednesday for lunch, I'd like to talk to you about it.

Mc: All right.

HMJr: Are you free?

Mc: Yes. Let me see - yes, I am.

HMJr: And I wondered if before coming over, because just so that you know, it's - I have an older son.....

Mc: Yes.

HMJr: .....and that's what I'm interested in.

Mc: Yes.

HMJr: If I wanted to, on Thursday, to go to one of these camps where you first send the men - I don't know what you call them.....

Mc: Well, there are three places. The first is the reception center, which is just a twenty-four or forty-eight hour affair.

HMJr: Yes.

Mc: Then a replacement training center.

HMJr: Yes.

Mc: That's where he gets his basic. That's the three months' course.

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HMJr: Well, I mean, if I wanted to see the twenty-four and the three months, could you inquire where they are if I wanted to do it on Thursday?

Mc: On Thursday. The nearest ones here, you mean.

HMJr: Yes.

Mc: The nearest ones to Washington.

HMJr: Yes.

Mc: Yes, surely.

HMJr: I might even want to sleep in one.

Mc: Right. Right.

HMJr: What?

Mc: Okay. You'll find it a very interesting experience.

HMJr: Well, I mean, I thought I might just want to go through the thing and see how the whole thing is done.

Mc: What you ought to do then, you ought to go down to one of the officers' candidate schools. Go down - if you could get - hop on a plane and go to Benning. That'll be - that really is an experience.

HMJr: Well - hello.

Mc: Yes.

HMJr: Well, I think, unless something breaks, I could set aside most likely all of Thursday; and then another week I could set another day, you see.

Mc: Yeah, and go down to Benning. And eventually you could see the whole course, yeah.

HMJr: And see the whole thing.

Mc: Right. I think you'd be impressed with it.

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- HMJr: But I thought - I wanted to tell you what it was, and then - so that you'd know.
- Mc: Fine. I'll find out and set it up right away. I'll let you know.
- HMJr: And I'll look forward to seeing you Wednesday.
- Mc: Now, may I have a minute.
- HMJr: You can have three.
- Mc: All right. In this Japanese business on the West Coast.....
- HMJr: Yes.
- Mc: We've issued a proclamation out there this morning delimiting the areas - defining the areas - although we haven't ordered any evacuation, we tell these that if they move out of these areas, they'll be safe.
- HMJr: Yeah.
- Mc: And in the future we'll talk about compulsory evacuation.
- HMJr: Yeah.
- Mc: Now, the rumors out there have been current for some time and it has resulted in a great many forced sales and the Japanese abandoning property and what not; and we think that we - particularly because citizens are involved - that we ought to do something to protect their property values, watch their properties, and see what we can do to liquidate some of them if we don't have - if they're not in the hands of the alien property custodian as such, they must be in somebody's hands who occupies that type of position.....
- HMJr: Yeah.
- Mc: .....and we're - although we're in a formative stage about it, we're very anxious to get some

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civilian out there who knows something about credits.

HMJr: Yes.

Mc: Who can help General De Witt and his staff until we get the thing organized.

HMJr: Right.

Mc: Now, I wonder whether there's anybody in your shop that you'd have reliance on, that you could send out there, or somebody on the Coast that you could have get in touch with General De Witt to start thinking on these problems and giving us a lift on it.

HMJr: Well, now, let me talk very frankly with you, see?

Mc: Sure.

HMJr: I don't know whether Mr. Stimson told you what happened at Cabinet on this subject. Prior to Cabinet, we got this telegram. I think it's - I don't remember whether it's Truman or Tolan.

Mc: Tolan, I guess.

HMJr: Yes. And we answered him, in which we said we thought it ought to be an independent agency.

Mc: Yes.

HMJr: And I think I sent Mr. Stimson a copy of my telegram.

Mc: I didn't see it here.

HMJr: Well, I think so.

Mc: Yeah.

HMJr: And then Hopkins got interested and we said that this is a socialological matter.....

Mc: Yes.

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HMJr: .....and that it wasn't something that we could handle, and we thought it ought to be either an independent agency or, where it was in the city, it should be McNutt, and in the country, Farm Security.

Mc: Yes.

HMJr: Well, then the whole thing came up at Cabinet. The President raised it.

Mc: Yes.

HMJr: And he first asked Mr. Stimson what he was going to do and what he was going to move and so forth.

Mc: Yes.

HMJr: I mean, I think you ought to have this background, you see.

Mc: Yes, yes.

HMJr: And then he turned to me and he said, "Well, if I were you, Henry, I wouldn't want to touch this."

Mc: Yes.

HMJr: And I said, "Well, I don't, Mr. President. It's something that I can't handle without an entire new organization. We're not equipped; we don't want it."

Mc: Yes.

HMJr: Then Francis Biddle, who seems to want it more than anything else in life.....

Mc: Yes.

HMJr: .....I never saw a man so excited about anything.....

Mc: Yes.

HMJr: .....said would the President speak to the

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Director of the Budget, and the President said no, that Biddle should.....

Mc: Yes.

HMJr: .....draw up an order.

Mc: Yes.

HMJr: So then the President said, "Well, I want the Treasury to keep Frozen Funds."

Mc: Yes.

HMJr: "I want them to have that." But this other thing should go somewhere else, and he didn't say where.

Mc: Yes.

HMJr: And then, of course, that was Friday morning.

Mc: Yes.

HMJr: And I don't know what's happened since then, but that's the background.

Mc: Uh huh.

HMJr: But to help you pending this thing, we're at your service.

Mc: Well, now.....

HMJr: And if you will tell me what time, I will have Foley and one of his men call on you today.

Mc: Well, that's very kind - all I want, I want a stop-gap situation and I want some advice more than a permanent set-up.

HMJr: Well, the boys know all about it. You name the time, and I'll have Foley at your office this morning.

Mc: All right - eleven o'clock.

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HMJr: Foley will be there with whoever is necessary.....

Mc: All right, fine.

HMJr: .....and we'll fill the gap until the President makes up his mind, but I thought you ought to have that background.

Mc: Well, I'm glad to get that. You never fail to respond to any - whenever.....

HMJr: Well.....

Mc: You've got a hundred per cent batting record with me.

HMJr: Well, that's good. It goes both ways.

Mc: All right. Now I'll get you this dope on the camps.

HMJr: And Foley'll be there at eleven o'clock with whoever is necessary.

Mc: Thanks very much.

HMJr: Thank you.

Mc: All right.

HMJr: Good-bye.

March 3, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. White's Office

March 3, 1942

4:00 P. M.

Present: Mr. White  
Mr. Bewley

Mr. Bewley called at his own request. He stated he had received a communication from the British Treasury thanking us for the copy of our proposed agreement with China. Mr. Bewley asked whether it was our intent to permit the Chinese to utilize after the war any of the funds we are placing at their disposal. Mr. White replied that definite terms had not yet been set but that he didn't think that the use of the funds after the war was over would be excluded. Mr. Bewley then asked whether any definite decisions had as yet been made with respect to the possible use of funds. Mr. White said that there had been no change in the situation since we submitted a draft of our agreement to the Chinese and to him (Mr. Bewley). Mr. White stated that we had not yet received the reaction of the Chinese Government to the draft.

Mr. Bewley said that the British were thinking of restricting the use of their sterling loan to purchases in the sterling area but he said the final terms had not been made and they would like in general to shape the loan along lines somewhat like ours if they felt they possibly could. He said there was also feeling in the British Treasury that if there was any loan to be guaranteed it probably should be guaranteed by the dollar rather than the sterling. Mr. White suggested that the problem was rather complicated. If the Chinese were offered a guarantee in terms of dollars or gold as against a guarantee in terms of sterling, they would, under present circumstances, probably prefer the dollars or gold; whereas, if certain bonds had a sterling guarantee and others a dollar guarantee and if the Chinese investor had his choice, he probably would elect to take the bonds with the dollar guarantee. Mr. Bewley agreed.

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Mr. Bewley wished to know whether we were going to make the recommendations or whether the Chinese were going to offer the suggestions. Mr. White stated the Chinese had informally made numerous suggestions but that the thinking along that direction had not got very far inasmuch as we were awaiting a settlement of the agreement.

Mr. White told Mr. Bewley we would let him know as soon as anything definite had been determined and that we would be glad to learn of any definite development in London with respect to their loan.

SECRETARY MORGENTHAU'S READING COPY OF  
TAX STATEMENT BEFORE THE HOUSE WAYS  
AND MEANS COMMITTEE, 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 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 fifty-nine billion dollars 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 seven billion dollars in new revenue from taxes, together with an additional two billion dollars to be obtained from the social security program. The unprecedented sum of thirty-nine billion eight hundred million dollars will have to be 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 the American people can afford to provide 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, and prepare us for the new economic and social problems that will face us when the war is won.

This means, first, 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 leaves a heritage of post-war stresses and strains that will haunt us for decades.

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 Chart 1.)

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 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 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, Federal, State or local governments 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 compete with war production and add unnecessarily to the volume of purchasing power in the hands of the people. I recommended especially the immediate reduction of 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 a large 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 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 fiscal 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.

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 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 to the size of personal income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

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I recommend that the individual income tax be changed to yield approximately three billion dollars, or about 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 views, I feel that the social security program should be expanded both as to coverage and as to protection, and that taxes for this purpose should be increased by approximately two billion dollars a year.

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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.

A single person with no dependents, with a net income of three thousand dollars, pays two hundred and twenty-one dollars tax under the present law; he would pay four hundred and seventy dollars under the suggested schedule.

A married person with two dependents, and with a net income of three thousand dollars, pays fifty-eight dollars under the present law; he would pay one hundred and eighteen dollars under the suggested schedule.

A single person with no dependents and with a net income of ten thousand dollars pays one thousand four hundred and ninety-three dollars under the present law; the suggested schedule would call for payment of two thousand seven hundred and twenty dollars. A married person with two dependents and with net income of ten thousand dollars pays one thousand one hundred and seventeen dollars under the present law and would pay two thousand one hundred and forty-three dollars under the proposed schedule.

The accompanying chart and tables, which I shall now submit to the Committee, will show the rate scale and comparative effective rates of tax under the present law and under the suggested program. (Chart 2 and Tables 1, 2, 3, 4.)

You will notice that these proposed schedules involve no further lowering of the personal exemptions, which now begin at an income of \$750 a year for a single person and \$1,500 for a married person, with a credit of \$400 for each dependent. The exemptions were lowered in the 1940 Revenue Act; they were lowered again in the 1941 Act, and their value has been reduced still further this year by the rise in the cost of living.

Although single persons with less than \$15 a week and married persons with less than \$30 a week do not pay any direct taxes, they already pay a disproportionate part of their little incomes in indirect taxes of all kinds.

Moreover, a further lowering of the exemptions would yield a relatively insignificant amount of revenue from the earners of very low incomes. If I felt that the expenditures of this group added materially to the danger of inflation, I should not hesitate to recommend the lowering of the exemptions in spite of the small amount of revenue that would be produced. Our studies at the Treasury indicate, however, that the very lowest income earners have all they can do to feed and clothe themselves and their families.

Their buying habits are governed strictly by the need of maintaining nutrition and health, and I cannot recommend a direct tax upon them until we have exhausted every possible source of revenue from those who enjoy higher incomes.

Because of the threat of inflation and because of large increases suggested throughout the existing rate scale, 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, and dividends.

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To start such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already 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 substantial speeding up of tax collection, we cannot afford to postpone collection at the source.

Since it is not known how soon it may become necessary to speed up tax collection 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 ten percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to ten percent of the full amount of dividends and interest. 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.

2. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of three billion dollars, an increase of about 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 the rate of return. 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.

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.

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 later, at the Committee's convenience.

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 three billion dollars 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-one percent on corporations with incomes of more than twenty-five thousand dollars. 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, the Treasury will give the Committee a detailed explanation of this proposed war surtax and the reasons which have led the Treasury to recommend it.

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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. At a time like this, I am confident that incorporated business will willingly pay additional taxes which will, after all, leave it in the aggregate about the same amount of income 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 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 cents, the additional tax on such dollar shall be held by the Government to the account of the 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.

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. (Chart 3 and Tables 5 and 6.)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of forty thousand dollars be merged with the existing exemption of forty thousand dollars, and that a single exemption of sixty thousand dollars 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 thirty thousand dollars and that the annual exclusion of gifts be made a total of five thousand dollars 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 three hundred million dollars.

#### 4. Excise Taxes

New and increased special excise taxes on distilled spirits, gasoline, cigarettes, soft drinks, candy, and chewing gum, and other items listed in the attached table, are suggested to raise approximately one billion, three hundred million dollars 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 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 necessities 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 necessities and luxuries alike. As compared with the taxes proposed in this program, it bears disproportionately on the low income groups whose incomes are almost wholly spent on consumer 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 limited.

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 reluctant to recommend that the great mass of the taxpayers of the United States should pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace--they are intolerable 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.

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.

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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.

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 State and 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 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 all 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."

Taxing the interest of future and outstanding issues of State and municipal securities would yield two hundred million dollars a year.

(b) Percentage Depletion. A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher.

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Percentage depletion consists of a certain percentage of gross income (twenty-seven and one-half 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 of taxpayers. The removal of this special privilege would yield eighty million dollars a year.

One of the reasons asserted in behalf of percentage depletion for oil and gas properties is that it stimulates exploration for such properties. If this is a proper objective, it would be better achieved by a special depletion allowance to those who do explore 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 minerals other than oil and gas are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced or percentage depletion were eliminated.

(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 three thousand five hundred dollars (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. 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 result is that married couples with high incomes 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.

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A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes between husband and wife. 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.

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 present rates of individual income tax, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately three hundred million dollars.

(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 in these hearings.

The removal of these additional methods of avoidance would yield about one hundred million dollars 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 you collect a debt which you previously charged off as worthless, the amount collected becomes part of your taxable income even though you received no tax relief when you charged it off. 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 morning would, if added together, produce over eight billion dollars in additional revenue. Since the effects of any series of tax proposals are interrelated to some extent, we should deduct about one billion dollars from this total. That would give us the seven billion dollars 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. War is never cheap; but, as I have said before, it is a million times cheaper to win than to lose.

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## REVENUE COMPARISON

"6% plan" and proposed corporation tax program

Increased tax yield if income up to 6 percent of invested capital were left free of tax and an excess profits tax were imposed taking 100 percent of the income above 6 percent of invested capital . . . .	\$2,500 million
Yield from proposed corporation tax program . . . . .	\$3,060 million
Excess of revenue from Treasury program . . . . .	\$ 560 million

Estimated average Federal, State and local tax burden  
on a single person with a \$750 income and on  
a married couple with a \$1500 income <sup>1/</sup>

	Total tax burden			
	Amount		Percent of income	
	Single person \$750 income	Married couple \$1,500 income	Single person \$750 income	Married couple \$1,500 income
Federal	\$ 52	\$ 97	6.9%	6.5%
State	31	61	4.1	4.1
Local	47	92	6.3	6.1
Total	130	<u>250</u>	<u>17.3</u>	<u>16.7</u>

Treasury Department, Division of Tax Research March 2, 1942

<sup>1/</sup> On the basis of estimated fiscal year 1942 Federal and estimated fiscal year 1941 State and local tax collections.

*\$1,500.00 family pays two months  
wages now in ~~and~~  
all kinds of taxes.*

Aggregate Outlay of Families in the United States for  
Consumption, Gifts and Personal Taxes and Savings, 1/ by Income Level, 1941

Income Level	Families		Aggregate Income		Aggregate Outlay (1/)					
	Number		Amount		Current Consumption		Gifts and Personal Taxes 2/		Savings	
	(in Thousands)	Percent	(in Billions)	Percent	Amount (in Millions)	Percent	Amount (in Millions)	Percent	Amount (in Billions)	Percent
Under \$500	2,315	7.2	\$ 781	1.0	\$ 1,173	2.0	\$ 18	0.5	\$ -410	-5.2
\$500 - 750	2,849	8.9	1,797	2.4	2,033	3.4	28	0.8	-364	-4.9
750 - 1,000	3,027	9.4	2,660	3.5	2,781	4.7	45	1.2	-178	-2.4
1,000 - 1,250	3,223	10.4	3,768	5.0	3,781	6.4	71	1.8	-194	-2.6
1,250 - 1,500	3,882	11.8	5,023	6.6	4,868	8.2	108	2.9	48	0.6
1,500 - 1,750	2,837	8.8	4,866	6.5	4,308	7.3	108	2.9	186	2.5
1,750 - 2,000	2,260	7.0	4,127	5.5	3,840	6.5	104	2.8	158	2.1
2,000 - 2,500	3,728	11.6	8,342	11.0	7,438	12.6	245	6.7	828	11.1
2,500 - 3,000	2,338	7.3	6,217	8.3	5,406	9.1	208	5.5	708	9.5
3,000 - 4,000	2,620	7.9	6,848	9.1	6,241	10.7	302	8.2	1,294	17.1
4,000 - 5,000	1,311	4.1	5,702	7.5	4,328	7.3	221	5.9	1,148	15.4
5,000 - 10,000	1,202	3.8	8,168	10.8	6,280	10.7	418	11.4	3,273	43.5
10,000 and over	564	1.7	16,023	21.1	6,915	11.7	1,778	48.0	7,223	95.8
All levels	22,027	100.0	78,801	100.0	59,129	100.0	3,645	100.0	12,287	100.0

1/ For explanation of items included in each category, see National Resources Committee, "Consumer Expenditures in the United States", pp. 23 - 28

2/ Taxes shown here include only personal income taxes, poll taxes, and certain personal property taxes. For further explanation see, "Consumer Expenditures in the United States", p. 27

Research Division, U. S. A.  
Consumer Income and Demand Section

2/27/42

Mr. WILLIAMS. Now, in the over-all ceiling policy advocated by some there is involved the question of the control of profits, along with everything else. This bill does not provide for that.

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. Except insofar as a reasonable and a fair price is fixed on a commodity, and, according to the extent to which that is successfully administered, profits will necessarily be reduced to a reasonable and a normal basis, will they not?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. Now, in those cases which cannot be reached under the general policy provided for in this bill, and there will be those cases, how do you suggest that we can reach them?

Secretary MORGENTHAU. Well, the only way that you can reach them, Mr. Williams, is through another tax bill. We have just finished one. We in the Treasury, in appearing before the Committee on Ways and Means, have presented our viewpoint. We felt that we would have liked to see them go further on the question of excess profits; but, after all, we are just hired men, and we present our views, and the responsibility is yours.

But I still feel that we are going to have to have much more stringent laws affecting excess profits before we get through. If we are going to ask everybody else to be unselfish and patriotic—the farmer, the laborer, the banker, and everybody else—I think that the owners of corporations will have to do likewise.

Mr. WILLIAMS. Briefly, what is your plan? What do you have to suggest in addition to what we already have, in addition to the tax bill which has just recently been passed? What method?

Secretary MORGENTHAU. Do you care to have us go into that technically?

Mr. WILLIAMS. I do not care for that; but if you can, do it in general, and briefly.

Secretary MORGENTHAU. I can tell you my own philosophy very briefly. I think that in times like this, if a corporation earns 6 percent on its invested capital, it ought to be satisfied. I think that everything over and above that, of course, with such exceptions as equity calls for, should go to the Government until this emergency has passed and we have paid for these extraordinary expenditures.

Mr. WILLIAMS. You mean that they should simply be allowed a net income of 6 percent on the invested capital, and all above that should go into the Treasury as excess profits?

Secretary MORGENTHAU. To pay for these unusual emergency expenditures.

Mr. CRAWFORD. Mr. Secretary, I have some questions here, some of which have been lightly touched upon by Mr. Williams. But before going into these, I wish to clear up one or two points in connection with your formal statement which you just submitted to us, first, by saying that I am in agreement with you 100 percent that 6 percent net on present transactions is sufficient for American industry. I think we should take 100 percent of the profit over and above 6 percent in a tax bill just as quickly as we can enact it into law.

Secretary MORGENTHAU. What I said, if I remember, was that I thought while this emergency was on and while we have these enormous expenditures, that if a corporation could earn 6 percent on its capital, it ought to be satisfied.

Mr. CRAWFORD. That is what I am agreeing with.

Secretary MORGENTHAU. I am sorry. I did not know whether you wanted me to restate it.

Mr. DEWEY. May I interject there that a company that has a very low capitalization, which is doing a great deal of business—should that be fixed at 6 percent?

Mr. CRAWFORD. May I ask you this? Do you mean by your inquiry 6 percent on the outstanding capital stock, or upon the invested capital?

Mr. DEWEY. The question was asked with respect to 6 percent of the capital, as I understood the reply of the Secretary. I would like to know what would be the position of many companies, partnerships, and so on, personal-service corporations and others. I just want to clear that statement up. We want to keep alive the average earnings, as well as the fixed interest rate.

Mr. CRAWFORD. Let us see if we are clear on this. Mr. Secretary, may I ask you this question? When you speak of capital, do you mean invested capital, or outstanding capital stock?

Secretary MORGENTHAU. I mean the dollars put into the business.

Mr. CRAWFORD. That is exactly what I meant. Do you agree with that?

Mr. DEWEY. No; I do not.

Mr. WILLIAMS. Yes, you may proceed.

Mr. DEWEY. Mr. Secretary, I wish to refer to your statement to Mr. Crawford, in which you said you favored taxation that would take all net revenue from business in excess of 6 percent of the paid-in capital. There are numerous companies which have elected for many years prior to the present emergency to keep their capitalization small, and have plowed back their earnings into surplus, thereby providing their working capital. Moreover, there are personal-service companies with little or no capital. My question is, Do I understand that you favor confiscation by taxation of all earnings in excess of 6 percent on the cash money invested in an undertaking, without regard to the average earnings during what may be termed normal business conditions?

Secretary MORGENTHAU. Well, Mr. Dewey, I think it was Mr. Williams who asked me the question, and I said I could either give him a very simple answer in a few words as to how I felt, or I could have one of our tax experts give him a more detailed answer. And what I was attempting to do was to tell you gentlemen how I felt, to give you a sort of rule of thumb. I realize that to avoid injustice some modifications would be required. If you don't mind, the words and language which you used, do not happen to fit my philosophy or attitude toward business. But I do think that in these times when we are asking the young men of this country to serve their Nation at \$1 a day, and go through what they are doing, and ask them to give up what they have given up, we are not asking business to do anything more than what is its share, if a way can be found, for them to give up excess profits over and above 6 percent of the money invested in the business to help pay for this national-defense program.

Mr. DEWEY. Mr. Secretary, I don't want to be put in a position by you or anyone else of recommending that business should prosper excessively at the expense of national defense. What I really wanted to clear up was the point that I believe there is some controversy as to invested capital and average earnings being the basis of taxation. And your statement made invested capital the base. I believe that taxation should be made on all excess profits, and that we should all make sacrifices and put our shoulders to the wheel. But I do not believe in a tax policy that will confiscate everything over 6 percent without regard to the past operations of a business or of a personal service company. That is what I wanted to direct my statement to. And I do not think Congressman Crawford—I am putting words into his mouth—meant much more than that. I think all the members of this committee, and I know all on the minority side, and all good Americans, are completely behind you, and completely behind any effort that will make your task easier and get you the tax money, but I do not want to see the goose that lays the golden egg killed, so that when these boys that are only getting a dollar a day come home, they won't find any jobs waiting for them, because business will have been destroyed.

Chart I

PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

July 1914=100 World War Period; Aug. 1939=100 Present Period

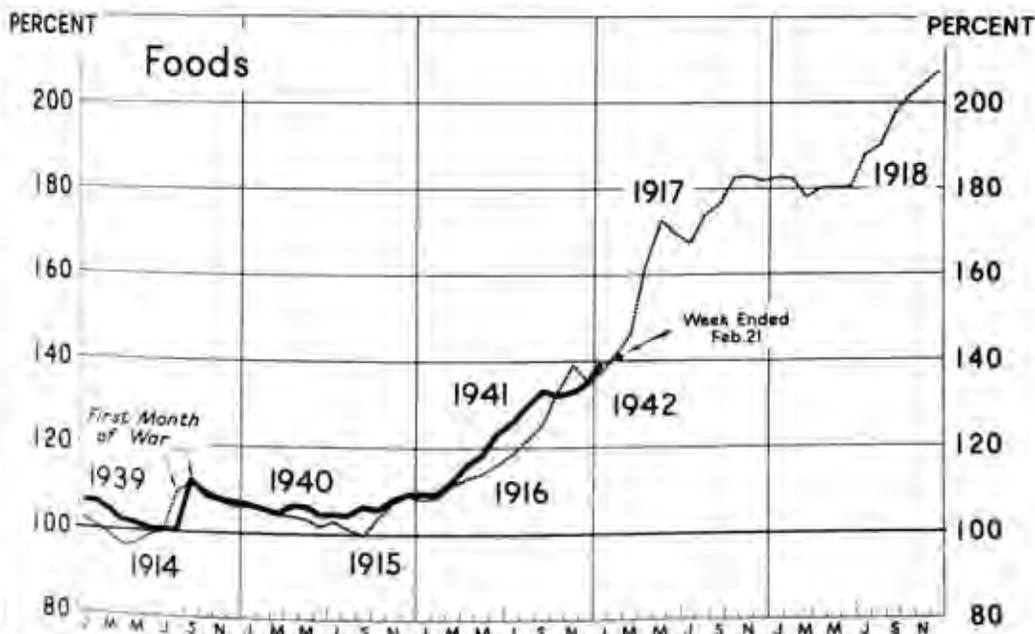
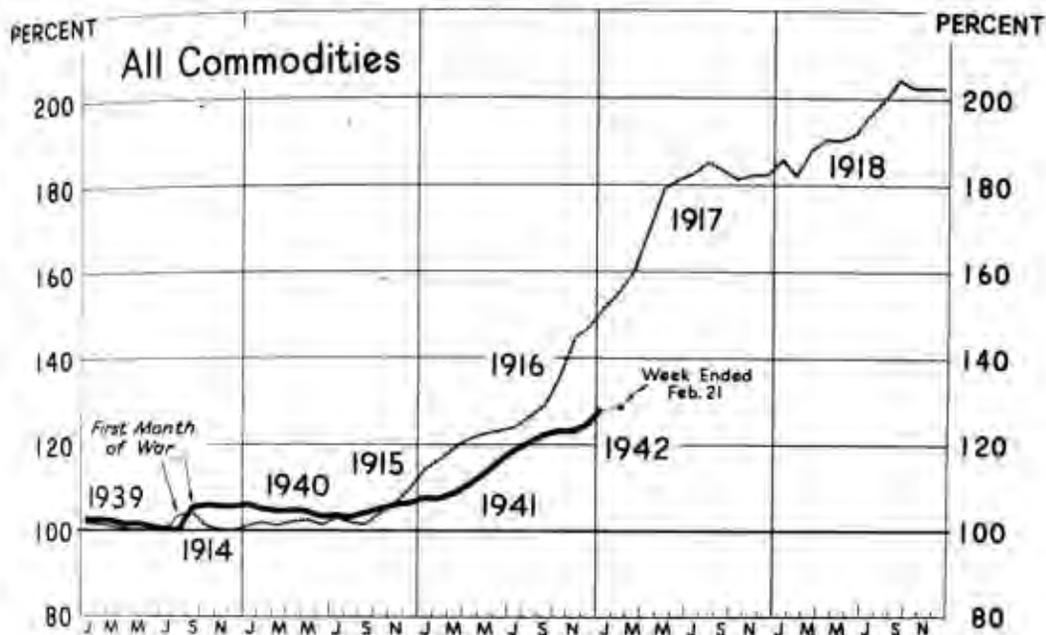


Chart 2

# INDIVIDUAL INCOME TAX

Effective Rates for Married Person without Dependents  
Under Present Law and Proposal

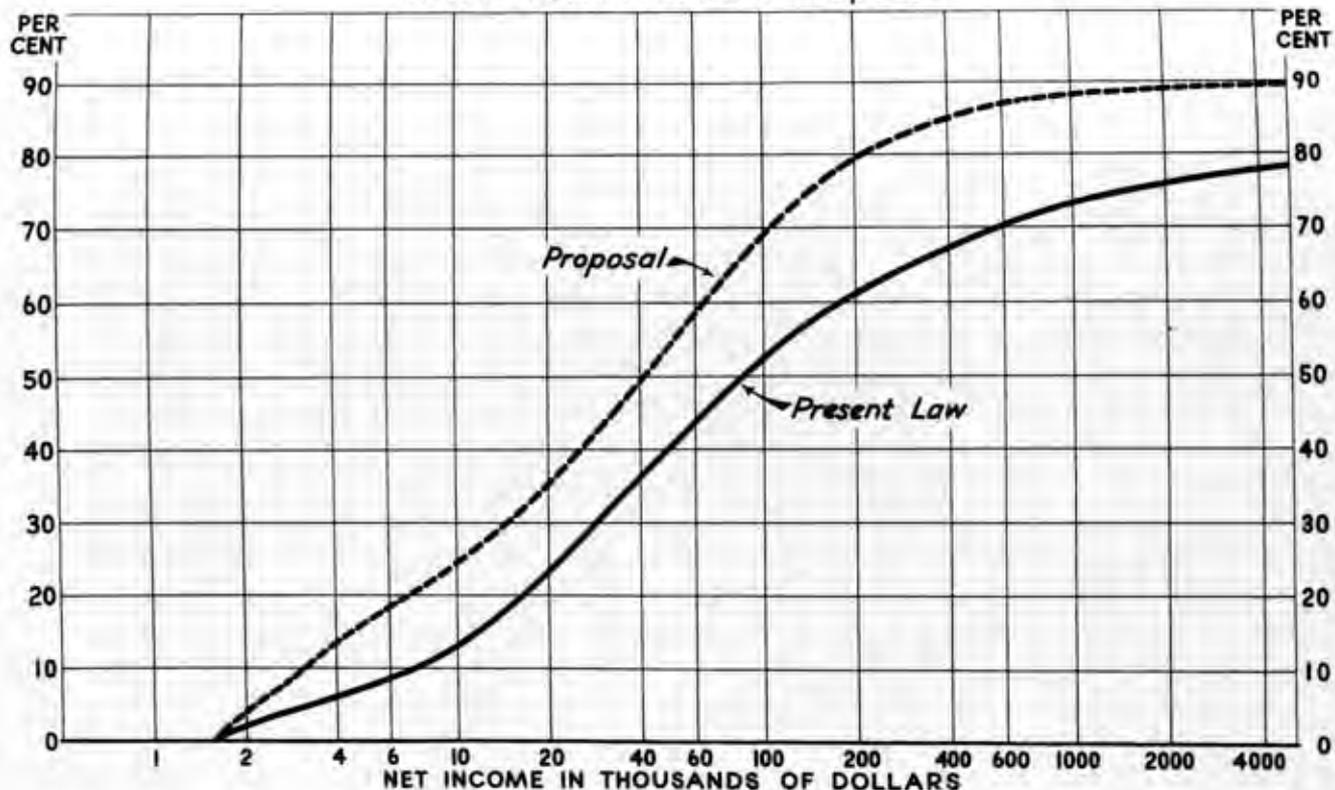


TABLE 1.

Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal	Present law	Proposal
			\$ 30	\$ 60
.5 - 1	.5	6%	60	135
1 - 1.5	1	12%	90	225
1.5 - 2	1.5	6	120	325
2 - 3	2	6	210	545
3 - 4	3	9	300	785
4 - 6	4	9	300	785
6 - 8	6	13	560	1,325
8 - 10	8	17	900	1,925
10 - 12	10	21	1,320	2,605
12 - 14	12	25	1,820	3,365
14 - 16	14	29	2,400	4,205
16 - 18	16	32	3,040	5,105
18 - 20	18	35	3,740	6,065
20 - 22	20	38	4,500	7,085
22 - 26	22	41	5,320	8,165
26 - 32	26	44	7,080	10,445
32 - 38	32	47	9,900	14,045
38 - 44	38	50	12,900	17,885
44 - 50	44	53	16,080	21,965
50 - 60	50	55	19,380	26,285
60 - 70	60	57	25,080	33,885
70 - 80	70	59	30,980	41,685
80 - 90	80	61	37,080	49,685
90 - 100	90	63	43,380	57,885
100 - 150	100	64	49,780	66,285
150 - 200	150	64	49,780	66,285
200 - 250	200	65	82,280	109,285
250 - 300	250	66	115,280	152,285
300 - 400	300	67	148,780	195,285
400 - 500	400	69	183,280	238,285
500 - 750	500	71	254,280	324,285
750 - 1,000	750	72	326,280	410,285
1,000 - 2,000	1,000	73	508,780	625,285
2,000 - 5,000	2,000	74	693,780	840,285
5,000 and over	5,000	75	1,443,780	1,700,285
		76	3,723,780	4,280,285
		77	-	-

Table 2.

Amount of individual income taxes and effective rates  
under present law and proposal

Single person - no dependents  
Personal exemption \$750

Net income: before personal exemption :	Amount of tax			Effective rates		
	Present law :	Proposal :	Increase in tax :	Present law :	Proposal :	Increase in effective rates :
\$ 800	\$ 3	\$ 8	\$ 5	.4%	1.0%	.6%
900	11	24	13	1.2	2.7	1.5
1,000	21	40	19	2.1	4.0	1.9
1,100	31	56	25	2.8	5.1	2.3
1,200	40	72	32	3.3	6.0	2.7
1,500	69	128	59	4.6	8.5	3.9
1,600	79	147	68	4.9	9.2	4.3
2,000	117	230	113	5.9	11.5	5.6
2,500	165	345	180	6.6	13.8	7.2
3,000	221	470	249	7.4	15.7	8.3
4,000	347	735	388	8.7	18.4	9.7
5,000	483	1,023	540	9.7	20.5	10.8
6,000	649	1,333	684	10.8	22.2	11.4
8,000	1,031	1,990	959	12.9	24.9	12.0
10,000	1,493	2,720	1,227	14.9	27.2	12.3
12,500	2,178	3,740	1,562	17.4	29.9	12.5
15,000	2,994	4,888	1,894	20.0	32.6	12.6
20,000	4,929	7,473	2,544	24.6	37.4	12.8
25,000	7,224	10,418	3,194	28.9	41.7	12.8
50,000	20,882	27,715	6,833	41.8	55.4	13.6
75,000	36,487	48,055	11,568	48.6	64.1	15.5
100,000	53,214	69,625	16,411	53.2	69.6	16.4
500,000	345,654	429,610	83,956	69.1	85.9	16.8
1,000,000	733,139	879,610	146,471	73.3	88.0	14.7
5,000,000	3,923,124	4,479,610	556,486	78.5	89.6	11.1

Table 3

Amount of individual income taxes and effective rates  
under present law and proposal

Married - no dependents  
Personal exemption \$1,500

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 1,500	-	-	-	-	-	-
1,600	\$ 6	\$ 16	\$ 10	.4%	1.0%	.6%
1,700	13	32	19	.8	1.9	1.1
1,800	23	48	25	1.3	2.7	1.4
1,900	32	64	32	1.7	3.4	1.7
2,000	42	80	38	2.1	4.0	1.9
2,100	52	99	47	2.5	4.7	2.2
2,200	61	118	57	2.8	5.4	2.6
2,300	71	137	66	3.1	6.0	2.9
2,400	80	156	76	3.3	6.5	3.2
2,500	90	175	85	3.6	7.0	3.4
3,000	138	285	147	4.6	9.5	4.9
4,000	249	535	286	6.2	13.4	7.2
5,000	375	805	430	7.5	16.1	8.6
6,000	521	1,100	579	8.7	18.3	9.6
8,000	873	1,735	862	10.9	21.7	10.8
10,000	1,305	2,435	1,130	13.1	24.4	11.3
12,500	1,960	3,425	1,465	15.7	27.4	11.7
15,000	2,739	4,535	1,796	18.3	30.2	11.9
20,000	4,614	7,060	2,446	23.1	35.3	12.2
25,000	6,864	9,960	3,096	27.5	39.8	12.3
50,000	20,439	27,145	6,706	40.9	54.3	13.4
75,000	35,999	47,425	11,426	48.0	63.2	15.2
100,000	52,704	68,965	16,261	52.7	69.0	16.3
500,000	345,084	428,935	83,851	69.0	85.8	16.8
1,000,000	732,554	878,935	146,381	73.3	87.9	14.6
5,000,000	3,922,524	4,478,935	556,411	78.5	89.6	11.1

TABLE 4.

Amount of individual income taxes and effective rates  
under present law and proposal

Married person — Two dependents  
Personal exemption \$1,500, dependent credit \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 2,300	-	-	-	-	-	-
2,400	\$ 6	\$ 16	\$ 10	.3%	0.7%	.4%
2,500	12	32	20	.5	1.3	.8
2,700	29	64	35	1.1	2.4	1.3
3,000	58	118	60	1.9	3.9	2.0
4,000	154	333	179	3.9	8.3	4.4
5,000	271	587	316	5.4	11.7	6.3
6,000	397	861	464	6.6	14.4	7.8
8,000	717	1,472	755	9.0	18.4	9.4
10,000	1,117	2,143	1,026	11.2	21.4	10.2
12,500	1,728	3,089	1,361	13.8	24.7	10.9
15,000	2,475	4,167	1,692	16.5	27.8	11.3
20,000	4,287	6,629	2,342	21.4	33.1	11.7
25,000	6,480	9,472	2,992	25.9	37.9	12.0
50,000	19,967	26,537	6,570	39.9	53.1	13.2
75,000	35,479	46,753	11,274	47.3	62.3	15.0
100,000	52,160	68,261	16,101	52.2	68.3	16.1
500,000	344,476	428,215	83,739	68.9	85.6	16.7
1,000,000	731,930	878,215	146,285	73.2	87.8	14.6
5,000,000	3,921,884	4,478,215	556,331	78.4	89.6	11.2

# EFFECTIVE ESTATE TAX RATES

Before Credit for State Death Taxes

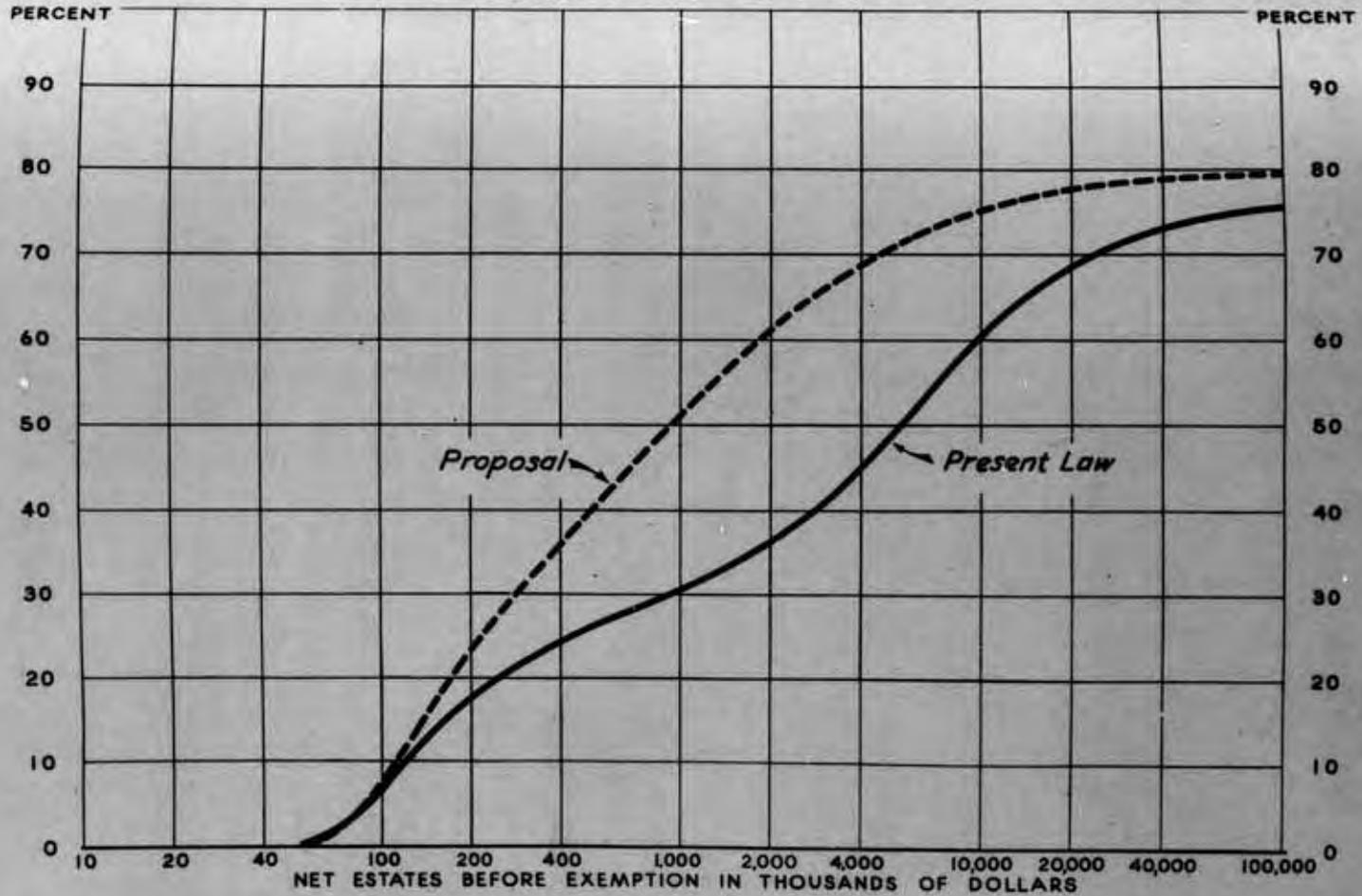


Table 5

Comparison of estate tax rate schedule  
under present law and proposal

Net estate after: specific exemp- tion <sup>1/</sup> (\$000)	Bracket rate			Total estate tax cumulative	
	Present law	Proposal		Present law	Proposal
Under \$5	3%	8%	\$ 150	\$ 400	
5 - 10	7	12	500	1,000	
10 - 15	11	15	1,050	1,750	
15 - 20	11	18	1,600	2,650	
20 - 30	14	22	3,000	4,850	
30 - 40	18	26	4,800	7,450	
40 - 50	22	30	7,000	10,450	
50 - 60	25	33	9,500	13,750	
60 - 70	28	36	12,300	17,350	
70 - 100	28	40	20,700	29,350	
100 - 150	30	44	35,700	51,350	
150 - 200	30	46	50,700	74,350	
200 - 250	30	48	65,700	98,350	
250 - 300	32	50	81,700	123,350	
300 - 350	32	52	97,700	149,350	
350 - 400	32	54	113,700	176,350	
400 - 450	32	56	129,700	204,350	
450 - 500	32	58	145,700	233,350	
500 - 600	35	60	180,700	293,350	
600 - 700	35	62	215,700	355,350	
700 - 800	35-37	64	251,700	419,350	
800 - 900	37	66	288,700	485,350	
900 - 1,000	37	68	325,700	553,350	
1,000 - 1,500	39-42	70	528,200	903,350	
1,500 - 2,000	45	72	753,200	1,263,350	
2,000 - 2,500	49	75	998,200	1,638,350	
2,500 - 3,000	53	76	1,263,200	2,018,350	
3,000 - 4,000	56-59	78	1,838,200	2,798,350	
4,000 - 5,000	63	79	2,468,200	3,588,350	
5,000 - 6,000	67	80	3,138,200	4,388,350	
6,000 - 7,000	70	80	3,838,200	5,188,350	
7,000 - 8,000	73	80	4,568,200	5,988,350	
8,000 - 9,000	76	80	5,328,200	6,788,350	
9,000 - 10,000	76	80	6,088,200	7,588,350	
10,000 and over	77	80	-	-	

<sup>1/</sup> A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

Table 6

Amount of estate taxes and effective rates  
under present law and proposal

Net estate before specific exemption <sup>1/</sup> (\$'000)	Amount of tax			Effective rate		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in ef- fective rates
60	\$ 500	-	\$ -500	.8%	-	-.8%
70	1,600	1,000	-600	2.3	1.4%	-.9
90	4,800	4,850	50	5.3	5.4	.1
100	7,000	7,450	450	7.0	7.5	.5
150	20,700	25,350	4,650	13.8	16.9	3.1
200	35,700	46,950	11,250	17.9	23.5	5.6
400	97,700	144,150	46,450	24.4	36.0	11.6
600	163,200	257,350	94,150	27.2	42.9	15.7
800	233,200	380,950	147,750	29.2	47.6	18.4
1,000	307,200	512,550	205,350	30.7	51.3	20.6
2,000	730,700	1,220,150	489,450	36.5	61.0	24.5
4,000	1,808,700	2,751,550	942,850	45.2	68.8	23.6
6,000	3,104,700	4,340,350	1,235,650	51.7	72.3	20.6
10,000	6,050,200	7,540,350	1,490,150	60.5	75.4	14.9
20,000	13,749,700	15,540,350	1,790,650	68.7	77.7	9.0
40,000	29,149,700	31,540,350	2,390,650	72.9	78.9	6.0

<sup>1/</sup> The amounts shown as the size of the "net estate before specific exemption" include \$10,000 of life insurance. It is assumed that none of this insurance would have been taxable under present law, which allows a \$40,000 insurance exclusion, in addition to a specific exemption of \$40,000. The proposal would eliminate the insurance exclusion and provide a single specific exemption of \$60,000. In recent years the amount of excluded insurance has averaged about \$6,000 per taxable estate.

Table 7.  
Excise Tax Proposals

Article	Present tax	Recommended tax rate and base	Estimated increases in revenues <sup>1/</sup> (In millions)
1. Photographic apparatus	10% manufacturers' sales price	25% manufacturers' sales price	\$ 11.2
2. Transportation by pipe line	4 1/2% of amount paid	10% of amount paid	18.7
3. Communications:			
a. Telephone toll service	24-50¢, tax 5¢; additional 5¢ tax on each 50¢	25¢ to 39¢ ..... 5¢ tax 40¢ " 64¢ ..... 10¢ " 65¢ " 99¢ ..... 15¢ " 5¢ additional tax for each 25¢ or fraction thereof	24.5
b. Telegraph, cable	10% of charge	15% of charge	
c. Leased wires, etc.	10% of charge	15% of charge	
d. Local telephone bill	6% of bill	10% of bill	46.6
e. Coin-operated telephone under 25¢	Exempt	10% of service charge	6.7
4. Gasoline	1 1/2¢ per gal.	3¢ per gal.	242.2
5. Lubricating oil	4 1/2¢ per gal.	10¢ per gal.	49.9
6. Beer	\$6 per bbl.	\$8 per bbl.	117.1

<sup>1/</sup> Estimated full year effect of indicated excises at estimated fiscal year 1943 levels of business after allowing for the initial impact of the imposition of the augmented rates.

7. Wines:				
Still wines -				
Not more than 14% alcohol	8¢ per gal.	15¢ per gal.		
14-21% alcohol	30¢ per gal.	50¢ per gal.		
More than 21%	65¢ per gal.	100¢ per gal.		25.0
Sparkling wines	7¢ per half-pint	10¢ per half-pint		
Artificial carbonated wines	3¢ per half-pint	5¢ per half-pint		
Liqueurs, cordials, etc.	3¢ per half-pint	5¢ per half-pint		
8. Distilled spirits	\$4 per gal.	\$6 per gal.		279.7
9. Transportation of persons	5% of amount paid	15% on transportation; 20% on seats and berths		94.8
10. Carbonated soft drinks	None	a. Schedule for bottled drinks based on 1¢ per bottle re- tailing at not more than 10¢; b. 80¢ per lb. of carbonic acid gas used in unbottled drinks		146.9
11. Candy and chewing gum	None	15% manufacturers' sales price		45.3
12. Cigars	Rate schedule	New schedule <u>1/</u>		13.1
13. Smoking tobacco	18¢ per lb.	36¢ per lb.		26.8
14. Cigarettes	\$3.25 per M.	\$3.50 per M - 10-cent brands; \$4.00 per M - 15-cent brands		188.6
15. Cigarette papers and tubes	Schedule	No exemption; tax all papers and tubes 1/2¢ per 25 papers or tubes		7.8
	Total			<u>\$1,344.9</u>

1/ Class A, retail price 2-5¢, tax \$2.50 M; B, 5¢, tax \$5.00 M; C, 5.1-8¢, tax \$7.50 M; D, 8.1-10¢, tax \$10.00 M; E, 10.1-15¢, tax \$15.00 M; F, 15.1-20¢, tax \$20.00 M; G, 20.1-30¢, tax \$25.00 M; H, 30.1 and over, tax \$40.00 M.

Corporation tax plan under present law  
and under the proposal

	: Present : : law :	: Proposal
<b>1. Excess profits credit</b>		
<b>a. Invested capital method:</b>		
First \$5,000,000 of invested capital	8%	8%
Over \$5,000,000 of invested capital	7	7
<b>b. Income method:</b>		
Portion of average earnings in base period, 1936-1939	95%	95%
<b>c. Specific exemption</b>	\$5,000	\$5,000
<b>2. Excess profits tax rates</b>		
Adjusted excess profits net income:		
First \$20,000	35	50
\$ 20,000 - 50,000	40	55
50,000 - 100,000	45	60
100,000 - 250,000	50	65
250,000 - 500,000	55	70
Over 500,000	60	75
<b>3. Income tax</b>		
<b>a. Normal tax</b>		
(1) Corporations with net income of not more than \$25,000:		
First \$5,000	15	15
\$ 5,000 - 20,000	17	17
20,000 - 25,000	19	19
(2) Corporations with net income over \$25,000:		
Flat rate	24	24
<b>b. Surtax</b>		
(1) Corporations with net income of not more than \$25,000:		
First \$25,000	6	16
(2) Corporations with net income over \$25,000:		
First \$25,000	6	31
Over \$25,000	7	31
(a) Relief provision: Corporations with current year surtax net income less than the average surtax net income for the base period years, 1936-1939, are allowed a tax credit of 10% of the difference, but not to exceed 20% of surtax net income. This provision applies only to corporations with net income over \$25,000.		

Table 9

Estimated revenue increase from  
proposed tax program

	<u>Increase over yield of present law <sup>1/</sup></u> (In millions of dollars)
Individual income tax	\$ 3,200
Corporation taxes	3,060
Estate and gift taxes	330
Excise taxes	1,340
Removal of special privileges, approximately	680
Eliminate exemption from income and profits taxes with respect to interest from all State and local governmental obligations	\$ 200
Percentage depletion	80
Mandatory joint returns	300
Other, approximately	100
Grand total	\$ 8,610
Less allowance for interrelated effects, approximately	1,000
Approximate increase in revenue from proposed tax program	\$ 7,610

<sup>1/</sup> For a full year of operation.