

DIARY

Book 506

March 9 and 10, 1942

- A -

	Book	Page
Abbott (Bud) and Costello (Lou)		
Purchase of bomber by earmarking salaries earned on tour of Nation's theatres discussed in White House-- Treasury correspondence - 3/10/42.....	506	264
Alien Property Custodian		
Executive Order setting up office discussed by Smith and Bill; Crowley to be head - 3/10/42.....		221
(See also Book 507, page 51)		
a) Conversation with FDR discussed by Treasury group.....		224
b) Amendment to Executive Order covering Frozen Funds - HMJ's memorandum to Foley - 3/13/42; Book 507, page 170		
c) Press release: Book 507, page 171		

- B -

British Empire		
See Lend-Lease		
British Purchasing Mission		
Vesting order sales - 3/9-10/42.....		134-137, 309, 310
Federal Reserve Bank of New York statement showing dollar disbursements, week ending February 25, 1942 - 3/10/42.....		311
Business Conditions		
Haas memorandum on situation, week ending March 7, 1942..		113

- C -

Congress of Industrial Organizations		
See Financing, Government: Defense Savings Bonds		

- D -

Defense Savings Bonds		
See Financing, Government		

- E -

Exchange Market		
Resume - 3/9-10/42.....		147, 348

- F -

Federal Reserve System		
See Financing, Government		

- F - (Continued)

	Book	Page
Financing, Government		
Excess earning power discussed by Treasury group; present: HMJr, Stewart, Viner, Suffington, Sullivan, Bell, Haas, Murphy, and Lindow - 3/9/42.....	506	49,179
a) Charts.....		77
b) Eccles-Bell conversation reported.....		179
c) Eccles-HMJr conversation.....		200
d) Excess reserves - alternative bases for agreement.....		210
Federal Reserve Bank presidents endorse Board of Governors plans for financing war effort through special types of securities, etc. - 3/10/42.....		260
a) Burgess-HMJr conversation - 3/12/42: See Book 507, page 124		
Federal Reserve--Treasury conference on "proposed basis of agreement on financing policy" - 3/12/42: Book 507, page 146		
a) Memorandum: Book 507, page 166		
Purchasers of Tax Certificates - classification by type - 3/10/42.....		298
Defense Savings Bonds:		
Congress of Industrial Organizations participation - HMJr-Murray correspondence - 3/9/42.....		99
Jolson, Al: Duffus asked as to ability as song leader - 3/10/42.....		160
Forand, Aime J. (Congressman, Rhode Island): Defense Savings Stamp - purchase and cancellation; Suggestion covered in Treasury--White House correspondence - 3/10/42.....		270
Federal Reserve Bank representatives to discuss mechanics of campaign with Treasury representatives - 3/10/42.....		276
College presidents informed of Treasury plan - 3/10/42..		279
Outstanding volunteer workers: Presentation of certificate discussed - 3/10/42.....		288
Daily changes in stock of Series E Bonds - 3/10/42.....		295
Forand, Aime J. (Congressman, Rhode Island) See Financing, Government: Defense Savings Bonds		
Foreign Funds Control		
Matthiessen and Hegeler Zinc Company - LaSalle, Illinois: Secretary of War given information on possible pro-Nazi tendencies - 3/10/42.....		252

- J -

Jolson, Al  
    See Financing, Government: Defense Savings Bonds

- K -

Krock, Arthur  
    Vichy connections discussed in PM - 3/9/42..... 91

- L -

	Book	Page
Lend-Lease		
U.S.S.R. : Ships loading at Philadelphia - Gaston report - 3/10/42.....	506	300
(See also Book 507, pages 21 and 325)		
Vessels in American ports loading materials for United Kingdom and British Empire excluding United Kingdom - 3/10/42.....		301,303
Payment in cash or in kind for materials diverted from British dollar contracts discussed in Lend-Lease-- Treasury correspondence - 3/10/42.....		305
Liberia		
Currency discussed in State-Treasury correspondence - 3/10/42.....		326
(See also Book 507, page 385 - 3/14/42)		

- M -

Matthiessen and Hegeler Zinc Company - LaSalle, Illinois		
See Foreign Funds Control		
Military Reports		
British operations reports - 3/9-10/42.....		148,349
Coordinator of Information reports:		
France - 3/9/42.....		150
German Home Propaganda - 3/9/42.....		152
British Home Intelligence report - 3/10/42.....		350
Kamarck summary - 3/9/42.....		155
Morgenthau, Henry, III		
HMJR discusses enlistment with Patterson (Under Secretary of War) - 3/9/42.....		36
(See also Book 507, page 1)		
a) Patterson memorandum.....		41
b) Additional information: Book 507, page 185		

- R -

Revenue Revision		
See Financing, Government		
Federal, State, and local tax burden (estimated average) on single person with \$750 income and married couple with \$1500 income - 3/9/42.....		85
a) Discussion with Henderson.....		89
Vandenberg, Arthur H. (Senator, Michigan): To be provided with sales tax information - 3/10/42.....		257

- S -

Shipping		
See Lend-Lease		
Silver		
Legislation authorizing cessation of purchases and permitting Treasury to sell at not less than 35¢ an ounce - White memorandum - 3/9/42.....		27
a) Copy of bill.....		31

- T -

	Book	Page
Taylor, Wayne Chatfield		
Present with Krock (Arthur) at Vichy dinner -		
PM article - 3/9/42.....	506	91

- U -

U. S. S. R.  
  See Lend-Lease  
United Kingdom  
  See Lend-Lease

- V -

Vandenberg, Arthur H. (Senator, Michigan)  
  See Revenue Revision

March 9, 1942  
9:30 a.m.

GROUP MEETING

Present: Mr. Gaston  
Mr. Paul  
Mr. Buffington  
Mr. Graves  
Mr. Bell  
Mr. Charles Bell  
Mr. Kuhn  
Mr. Viner  
Mr. Blough  
Mr. Kuhn  
Mr. Foley  
Mr. White  
Mr. Stewart  
Mr. Haas  
Mrs. Klotz

H.M.JR: I thought we might have a class reunion.

MRS. KLOTZ: Where is everybody?

MR. BELL: It has been a long time.

H.M.JR: Yes. I guess they didn't expect one.

Mr. Gaston?

MR. GASTON: The matter George spoke to me about on Saturday, we are getting out some instructions to Collectors on those statistics. It is mainly a matter of Philadelphia - the Philadelphia man was down here during the week on that very topic. The matter is a delay on Lend-Lease cargos, and we are going to have somebody from New York and probably

- 2 -

from Boston come in also to get--

(Mr. Sullivan entered the conference.)

H.M.JR: When can I begin to get those?

MR. GASTON: You will begin to get those within the next day or two. The order is going out today.

H.M.JR: I would like very much to have them - could I have something tomorrow from Philadelphia?

MR. GASTON: I think so. Tickton is going to Philadelphia today. The man was down from Philadelphia last week reporting. The Army had made a complaint and, according to his report, the main difficulty in Philadelphia--

(Mr. Haas entered the conference.)

H.M.JR: Tell them what it is.

MR. GASTON: Well, it is a question in the delay in loading the - dispatching the Lend-Lease cargos, and our Assistant Collector in Philadelphia reported last week after the Army had complained to us - he came down here and reported that the main difficulty in Philadelphia has been a row between McCormack and the Pennsylvania Railroad.

(Mr. Foley entered the conference.)

H.M.JR: Would you make a note and tell Philadelphia I want my first report tomorrow morning.

MR. GASTON: Yes, I will get a report tomorrow morning.

H.M.JR: Now, what I want is, I want the percentage of how much is loaded, and when the ships first arrive.

MR. GASTON: That is all in the memorandum that I gave you.

- 3 -

H.M.JR: But the first thing tomorrow morning, I want it.

(Mr. White entered the conference.)

MR. GASTON: That will be very easy because he has already been down here talking about that situation.

H.M.JR: What are the ones?

MR. GASTON: A petroleum car is going out of Port Arthur. There is some occasional stuff from New York, and there may be some from Boston. There is a little going from the West Coast, too. There is stuff going from Seattle and some oil cargos going from Southern California.

H.M.JR: But in Philadelphia, there were supposed to be seven vessels.

MR. GASTON: The bulk of the miscellaneous cargo, machinery and all that stuff, is going from Philadelphia.

H.M.JR: And I will have that, and George, you will whip that into shape so I can have something by noon tomorrow?

MR. HAAS: Yes, sir.

MR. GASTON: We will get your report from Philadelphia today. We are going to handle this thing over the ticker. I think that is reasonably safe. Of course this data is all dynamite as far as open telegraph is concerned.

H.M.JR: You can't break teletype.

MR. GASTON: No. We have got a machine right across from my office there. Harney is 271.

H.M.JR: Who is Harney?

MR. GASTON: He is assistant to Elmer on coordination.

H.M.JR: You have your own man?

MR. GASTON: Right across the hall from me.

H.M.JR: Do you have your own number?

MR. GASTON: Yes.

H.M.JR: What is your number?

MR. GASTON: I don't know the number of that machine. He and Peabody are in that office. Peabody is an Intelligence man, and they handle that machine.

H.M.JR: Is that separate from ours?

MR. CHARLES BELL: Yes, sir.

H.M.JR: I think ours upstairs is 288, isn't it Charles?

MR. CHARLES BELL: Yes, sir.

MR. GASTON: This machine was put in particularly for the Coordinator on this guard business.

H.M.JR: Mine is 288, I think. That is all right to have it on the teletype?

MR. GASTON: Yes. There is a new Executive Order on harbor security placing it exclusively - giving the Secretary of the Navy new authority, and he has turned that all over to Coast Guard.

H.M.JR: Herbert, who delegated the fifteen or twenty men that were assigned to be investigators in Aniline and Dye? Who assigned those men? Who says which men should do what? I mean, they have got, I don't know, fifteen or twenty men up there.

MR. FOLEY: About twenty.

MR. GASTON: The men that are doing the investigation?

- 5 -

Well, those men were originally in the group - nearly all of them were originally in the group assigned for guarding by Maloney who is the Coordinator in New York and different ones that they considered good investigators. It is an arrangement between--

H.M.JR: But I mean, who--

MR. GASTON: Between Federal Reserve Bank and Maloney.

H.M.JR: But there must be somebody in my staff who is responsible for the fact that there are fifteen or twenty men there in Aniline and Dye.

MR. GASTON: For the fact there are that many men?

H.M.JR: Yes.

MR. GASTON: Well, because the Foreign Funds asked for them and Maloney, the Coordinator in New York who is the Secret Service Agent in charge, is the man who has assigned the men to that work.

H.M.JR: Is it Maloney?

MR. GASTON: Yes.

H.M.JR: Have you seen the report on it?

MR. GASTON: I have not seen the report.

H.M.JR: Well, Maloney comes under Wilson and then under you, doesn't he?

MR. GASTON: Maloney, on this work, comes under Ireys, and then under me.

H.M.JR: Well, Herbert, it eventually comes up to you, doesn't it?

MR. GASTON: That is right.

H.M.JR: Take a look at the report that Foley made

- 6 -

to me on these men and the quality of them. I mean, the fact that they suddenly became investigators on one of the most difficult jobs we have, I think the whole thing is a reflection on our own organization.

MRS. KLOTZ: I understood they were assigned as guards, and then were just taken on as investigators without Mr. Irey knowing anything about it.

H.M.JR: Well, I don't see how Irey can escape that, I mean, the fact that they stay there. Somebody, somewhere along the line, is responsible. The fact that we had men who are qualified as guards doing the most intricate investigation, I think it is - I mean, starting with you and Foley, I think the whole thing is - that a thing like that can happen in the Treasury is terrible.

MR. GASTON: Well, I just haven't seen that report. I haven't been able to keep - I haven't had reports on what those men are doing. They have been working very closely under Ed's men up there in New York, and I am quite ignorant of what the men have been doing.

H.M.JR: Well--

MR. GASTON: We have tried to set up an arrangement under which the coordinators would furnish the men, but it hasn't always worked out.

H.M.JR: Well, supposing Norman Thompson takes a look into that whole thing for me with Gaston. Is that what you wanted to talk to me about?

MR. GASTON: No.

H.M.JR: Well, supposing he does that. I mean, the fact that a thing like that can happen. Each person says that it is somebody else's fault, but you have got a lot of guards doing the most intricate investigating and they stick there. It is a reflection on the Treasury. I don't want it to happen again, that is the whole point of the investigation. If it could happen once, it is bad enough, but nobody will take the responsibility that

- 7 -

they are there, and that we have a lot of men of guard mentality supposed to - up against some of the cleverest people in the world. I think - I say it could happen once, but it can't happen twice.

MR. GASTON: Well, these men are not - these men that they have held are investigators. They have also got guards who have been independently hired.

H.M.JR: Well, Herbert, take a look at the report. Everybody says it is somebody else's responsibility. I am not saying it is yours, but I want to know whose responsibility it is. I don't know whether Foley claims it is his responsibility or not.

MR. FOLEY: No, Mr. Secretary, I think I made my position perfectly clear. These men are investigators, and they are doing investigating work, and we asked the Treasury Investigating Service to provide us with men. Now, the caliber of the men that they provide us with is not our responsibility and, as I understand it, that is the thing that you are questioning.

H.M.JR: Now, wait a minute. Who did you ask?

MR. FOLEY: We asked Maloney up in New York.

MRS. KLOTZ: Mr. Irej says they are not investigators. He says they were assigned as guards.

MR. FOLEY: No, not these men.

MR. CHARLES BELL: I think that question goes right to Mr. Irej. Maloney only--

H.M.JR: Well, It is Irej's responsibility, and the fact remains, you have got a lot of men who haven't even a mediocre education doing this intricate work, and the fact that Irej - I don't know what it is, but I would like to run it down so it can't happen again. Now, if Irej sent them in as guards, as Mrs. Klotz said, and then they became investigators, he should have pulled them out. The fact that Joe O'Connell will work with

- 8 -

people like that is a reflection on him, the fact that he didn't kick them out or register a complaint. The whole thing - look here, Ed--

MR. FOLEY: Beggars can't be choosers, Mr. Secretary.

H.M.JR: Now wait a minute. If I send you ten lawyers and all of them are in the bottom of their class, are you just going to take them?

MR. FOLEY: No, certainly not.

H.M.JR: Then why should O'Connell take the responsibility for these investigators?

MR. GASTON: We would like to take the responsibility on this thing if we can get some figures. I have never heard any complaint on this or had any requests for men. Men who were put on guarding - we were endeavoring to relieve all the Treasury men on guarding in this Foreign Funds and replace them with hired men so long as they were doing guarding, and then I found in New York and other places they didn't want to let them go because they were using them on investigating work. If we get the requests here for the kind of men they want, we try to get them good men and take full responsibility on it. I have had no report on what these men were doing.

H.M.JR: Elmer is under a cloud, as far as I am concerned, on this thing until he can prove otherwise, so I am asking Norman to do this thing. I mean, you send me - if you send Mrs. Klotz down some stenographer from the Pool to help here, and Mrs. Klotz sends in some letters which are badly written, I would say, "Why do you do this?" Well, she would send the person back until she got a good person. She wouldn't accept a person who was a poor typist and so forth. She would send it back. Then the attitude, "Well, that is what they sent me, so I can't do anything." Now, to get that attitude in the Treasury in these times, I think it is terrible, and I want to dynamite it.

MR. CHARLES BELL: We recruited about two hundred

- 9 -

college graduates as investigators since last June. They are high-class men who have had some training in foreign exchange and who would understand this situation perfectly. Those men are under me primarily on Foreign Funds.

MR. FOLEY: These aren't Foreign Funds men he is talking about.

MR. GASTON: I don't think Irey has had any complaint about this. I haven't heard anything about this at all.

H.M.JR: I am the man who is complaining.

MR. GASTON: Well, if there is something wrong, I would like to know about it myself. I haven't had any report on this.

MR. FOLEY: A copy of Bernard's report has been given to Irey, and Irey is taking steps now to replace the people that we found were not up to standard with good people.

H.M.JR: Well, I still say that if I send Harry White back three or four economists and they are no good, and they do a lot of bad work, and he comes in and says, "Well, I am sorry, Mr. Morgenthau, the men you sent me were no good" - that wouldn't happen in this shop. There is something wrong, Ed, somewhere, and I want to find out where it is.

MR. GASTON: I would like to have a chance to look into this myself.

H.M.JR: O.K.

MR. GASTON: Because I have heard nothing about this. It doesn't come to me.

H.M.JR: I don't know how many other places we have got policemen doing investigating work. I have prided myself on our investigators, but I can't at this moment.

- 10 -

MRS. KLOTZ: There are a lot of the best men that have been taken away, and there is going to be a shortage of investigators.

H.M.JR: Well, did you see a copy of this report on these men? Let Mr. Gaston have a copy of it. You will look into it also?

MR. GASTON: Yes. If we are going to be responsible for furnishing these men, I would like to know something about what they want. I am trying my best to get this thing centralized so we can be responsible instead of having the men simply grabbed without consultation. The thing was done in a great hurry at the start, and on the night of December 7 - and orders were sent out whereby the Federal Reserve banks just went out and got men without even consulting the Coordinators. I got Ed and Bernie and so on together to try to get this thing regularized so that the requests would be made through the Coordinators, and so that we could handle it in some sort of way.

H.M.JR: Well, it is evident, Herbert, that we have to have some kind of a change. I mean, somebody, somewhere, has to be responsible, so if I say, "Well, these men are no good," somebody can say, "Well, that is my fault."

MR. GASTON: Well, I am perfectly willing to take the responsibility if I can get some information, but it is an illustration of how this thing comes up. I learned nothing about it. I don't know when Irey heard anything about it.

H.M.JR: Well, he must have had - how long has Irey had it?

MR. FOLEY: Well, Irey knew about it when you asked me to have somebody check them.

H.M.JR: That is ten days ago.

MR. FOLEY: That was ten days or two weeks ago, and then Irey was furnished with a copy of the report after Larry Bernard checked them.

- 11 -

H.M.JR: Well, Irey should have told you (Gaston) at once. He is your subordinate, isn't he?

MR. GASTON: That is right, on this sort of work.

H.M.JR: Well, he should have reported to you at once.

MRS. KLOTZ: The men were taken from Alcohol Tax.

MR. GASTON: There were a great many men taken directly without consultation with us at all. Men who were on--

MR. FOLEY: These fellows were never guards, Herbert. They were taken as investigators. We asked for a certain number of investigators in New York, and these were the fellows that were assigned to us. The Secretary asked me to check them and see whether or not from a standpoint of competence they were up to par, and Larry Bernard checked them and talked to each one of them and said that they were all loyal, and he had no question as to their honesty or their integrity. He did have some question as to the competency of about ten or eleven of them.

(Mr. Stewart enters the conference.)

MR. GASTON: I knew nothing about this. No request was ever made to me for these people or hasn't been yet.

MR. FOLEY: That information was given to Elmer before the check was made, and the report after the check was given to Elmer, and Elmer told Larry Bernard that he was taking steps to see that they were replaced and competent people were put there.

H.M.JR: I would send for Elmer and ask him why he doesn't let you know what is going on.

MR. GASTON: Well, I think that Mr. Foley's office should let me know a little bit about what is going on.

- 12 -

MR. PAUL: May I interrupt you just a moment, Mr. Morgenthau? I think Mr. Blough and I had better get up on the Hill. This is the first day, and we have to be up there at ten o'clock.

H.M.JR: All right. Good luck.

(Mr. Paul and Mr. Blough leave the conference.)

H.M.JR: John?

MR. SULLIVAN: You sent me a memo about the discussion in Cabinet on mash, industrial alcohol.

H.M.JR: Yes.

MR. SULLIVAN: I will have a complete memo on that for you by noon.

H.M.JR: Good.

MR. SULLIVAN: I think they are wrong. I think this was picked up in small quantities through the hills.

H.M.JR: Well, the Attorney General was very positive about it.

MR. SULLIVAN: Well, you would have to have a tank car of mash to get a few gallons of alcohol.

H.M.JR: Is it in his custody?

MR. SULLIVAN: After it is seasoned? Yes. But I will have a complete memo on that. I saw the Commissioner Thursday afternoon, and you wanted me to get in touch with you afterward.

H.M.JR: Yes.

MR. SULLIVAN: Doughton sent for me yesterday morning. There was something else he wanted me to tell you, so whenever you are free today, I will be glad to see you. That is all I have.

- 13 -

MR. BUFFINGTON: I have nothing.

H.M.JR: Ferdie?

MR. KUHN: I have only some background on the Disney matter. I mentioned it to you.

H.M.JR: I will read it. Then you let me know. But I am not going to try to sell Disney.

MR. KUHN: You want to see him, though?

H.M.JR: Only after he is ready to do the picture. When he has made up his mind to do the picture.

MR. KUHN: I have nothing else.

H.M.JR: George?

MR. HAAS: Here is the Nelson report. That explains why the situation is as it is. We are moving right along on that. The main thing there is that he said the Russians were slow in specifying what they wanted. Then, when the specifications did come in, they were non-standard, so it required practically a custom job for each item. We are moving along. The position of the goods at shipside from there on is very vague. I hope to get some information from Philadelphia today on that.

H.M.JR: All right. Anything else?

MR. HAAS: That is all.

H.M.JR: Walter? You get in a conference with Bell, will you?

MR. STEWART: I will.

H.M.JR: They seem to think they have to have a dress rehearsal before they see me at three. Harry?

MR. WHITE: Will you want to set aside some time this week to meet the same group that you had here twice

- 14 -

in considering what items you expect the British to let you have, what payments you wish to make for British expenditures?

H.M.JR: Yes.

MR. WHITE: Dean Acheson sent you his suggestion, how to handle the situation. You remember that you were going to wait until he had let you know. Well, he has let you know in this memorandum which--

H.M.JR: You had better send that in and let me read it.

MR. WHITE: Well, there is an answer going through to him which merely--

H.M.JR: When will I get--

MR. WHITE: ... says that you will be ready today, that you expect soon to call a meeting.

H.M.JR: Oh. Could we have it while Stewart is here?

MR. WHITE: You wanted him in on that, yes. I should think so. You (Stewart) are here for two days?

MR. STEWART: Today and tomorrow.

H.M.JR: I could do it at three tomorrow.

MR. WHITE: You will have the large group in tomorrow, the State Department and Army and Navy? If so, you had better have a prior time.

H.M.JR: Well, I can do ours in the morning and these others in the afternoon.

MR. WHITE: It is quite all right.

H.M.JR: Supposing I put you down for eleven o'clock tomorrow morning and then the big group at three?

- 15 -

MR. WHITE: Then you had better notify the large group this morning.

H.M.JR: Well, will you tell Stephens?

MR. WHITE: Yes. Do you want the same people here who were here last time? There was a large representation, Agriculture, Army, Navy, Lend-Lease.

H.M.JR: I think so.

MR. WHITE: And Economic Warfare?

H.M.JR: I think so. Anybody who is interested in the Treasury can meet here at eleven tomorrow. We will take full advantage of Stewart being here. We will work him. You had better let me take that letter home to read it tonight, the letter, Harry, that Acheson wrote me and then circulate it amongst our own group.

MR. WHITE: It already has been.

H.M.JR: Has Stewart seen it?

MR. WHITE: He hasn't seen it, sir.

H.M.JR: No. Harry, what about this price of silver in Bombay?

MR. WHITE: Well, you have got the answer before you. The answer is very simple.

H.M.JR: No, I have just got the question.

MR. WHITE: Well, the answer was very simple. I can give it to you orally. The answer was routed to you. The reason there is an increase in demand for silver is rather the simple one that owing to the increasingly grave political and military situation, many Indians seem to prefer silver to rupee currency, paper currency, which is a natural outgrowth of the victories the Japanese are

- 16 -

having. Then, there has always been a big spread between their price and the New York price, which has been increased by virtue of the cessation of the granting of permits for the importation of silver. In other words, there is still less silver coming on the market now. The spread between the future and the present prices is also a reflection of the fact that they are so disturbed about the future prospects of Indian independence that a lot of them don't want to enter any future commitments for the sale of silver. There is nothing unusual about the situation beyond that.

H.M.JR: Ed?

MR. FOLEY: Here is this letter about Larry Bernard. If you could give us a few minutes this morning around eleven thirty.

H.M.JR: Yes. What else?

MR. FOLEY: Nothing.

H.M.JR: I sent you a suggestion. I don't know whether you have got it yet.

MR. FOLEY: Not yet.

H.M.JR: Should we let the Tolson Committee on the West Coast know what we are doing? What?

MR. FOLEY: By all means.

H.M.JR: I sent you a memo on it.

MR. FOLEY: By all means. I talked with John Pehle - yes, that is a good idea.

H.M.JR: Don't you think that is a good idea? They are still there, you see.

MR. FOLEY: That is right. They are in San Francisco now.

- 17 -

H.M.JR: You might be drafting a telegram to them. Ed, don't you think that is a good idea.

MR. FOLEY: Yes, it is. We could either do it by sending them a copy of the instructions that we have given to the - I mean the program we worked out, and the instructions that have been given to the Federal Reserve in San Francisco, or we could have John Pehle go around and see them, and tell them orally what we have done.

H.M.JR: I think you ought to have a written record.

MR. FOLEY: All right. They - the boys didn't get to Los Angeles until about eleven o'clock Pacific Time Saturday night. They had a head-wind all the way out and had pretty hard sledding, and Pehle called me yesterday about three o'clock. It was around twelve out there, eleven or twelve. They had spent the night in Los Angeles, and they were going on up to San Francisco in the afternoon, yesterday afternoon. They expected to spend a couple of days there, and McCloy was going on up to Portland and Seattle and wanted Pehle to go along with him, and Mr. Eisenhower was on the plane along with Szymczak, so they are all together.

H.M.JR: That is grand. Anything else?

MR. FOLEY: Nothing else.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: Just as a reminder, I spoke yesterday on the phone to the man that handles that. What's his name?

MR. GRAVES: Duffus.

H.M.JR: He hadn't got anywhere on it yet. You might give him a little push. He is sick, though.

MR. GRAVES: He will, he is on the job this morning.

- 18 -

H.M.JR: All right.

MR. GRAVES: He had been away ever since the last meeting. He is back this morning.

H.M.JR: Dan?

MR. BELL: Did somebody prepare an answer to Henderson's letter?

H.M.JR: No.

MR. BELL: Should it be answered?

H.M.JR: Yes.

MR. BELL: I think it should.

H.M.JR: Anything else?

MR. BELL: Would you want to sign the China agreement tomorrow if we are able to get everything ready?

H.M.JR: Oh, I called up Mr. Wells around one o'clock Saturday, and he said he would clear it the same day.

MR. BELL: I didn't hear.

H.M.JR: He said he would.

MR. BELL: I will give him a ring this morning, then.

H.M.JR: He said he would clear it.

MR. BELL: Well, if they clear it and if you can get Soong to clear it, we might be able to do it this evening.

H.M.JR: What is that?

MR. BELL: I say if they clear it in the State Department and we can get Soong to clear it without further cables to China, we might be able to sign it this evening.

H.M.JR: Well, the only time I can do it would be at two forty-five.

MR. BELL: Otherwise it will have to be tomorrow?

H.M.JR: Yes, but I would like to do it today if possible.

MR. BELL: I will see what can be done?

H.M.JR: All right?

MR. BELL: Yes.

H.M.JR: Anything else?

MR. BELL: That is all.

MR. WHITE: Henderson, at the meeting of the Price Committee, spoke very highly of the cooperation which the Treasury is giving him, and the opportunities that the Treasury is providing his organization to comment on the tax program.

H.M.JR: Ferdie, before my press conference this afternoon - somebody in Chick's family was sick. He called me up. I have not seen in the press, and I would like to know. There are two things I would like to get for this afternoon. One is the table on the indirect taxes that the man - married man and single man pay, and then that tax - the other table which shows how much they save up to fifteen hundred dollars.

MR. KUHN: Would you like to give that to them this afternoon?

H.M.JR: Yes.

MR. SULLIVAN: It is in the hearings, Ferdie.

H.M.JR: But it is not in the press.

MR. KUHN: It is very interesting that the press editorially has been swell about the tax program, I think,

- 20 -

on the whole, but today for the first time, the financial editors got to work and that is just what you might of expected.

H.M.JR: Have you seen it in the press, this table?

MR. SULLIVAN: No, I have not, sir.

H.M.JR: I don't think they ran it.

MR. WHITE: There was an article in the Times-Herald, in the gossip column, about you and Frankfurter. Was it called to your attention?

H.M.JR: No.

MR. WHITE: Well, I think you would want to read it. I got it second-hand.

H.M.JR: Give it to me third-hand.

MR. WHITE: Well, you will be able to see it in the article. I can tell you what was reported to me, as being that Frankfurter and yourself were very much disturbed about the possibility of Cripps supplanting Churchill, and rushed to the President to urge him to prevent it, if possible. (Laughter)

H.M.JR: Cissie knows more about it than I do. It is news to me. I would like to see it.

MR. WHITE: I was hoping it would be news to you.

H.M.JR: It is news to me. John, you might stay a minute.

MR. SULLIVAN: Yes, sir.

March 9, 1942

Ed. Foley

Secretary Morgenthau

Please talk over with me this morning the advisability of letting the Tolson Committee on the West Coast know just what steps we have taken during the last few days.

*Taken up at 9:30*

*meeting 3/9/42.*

Salaries & Expenses -  
Foreign Exchange Control-1942

MAR 9 - 1942

HONORABLE JOHN H. TOLAN, CHAIRMAN  
HOUSE COMMITTEE INVESTIGATING NATIONAL DEFENSE MIGRATION  
SAN FRANCISCO, CALIFORNIA

THE FEDERAL RESERVE BANK OF SAN FRANCISCO IS WORKING OUT A PROGRAM TO DEAL WITH THE PROPERTY OF EVACUEES FROM THE PACIFIC COAST MILITARY AREAS SUBSTANTIALLY AS OUTLINED BELOW:

[HERE TAKE IN ATTACHED]

THIS PROGRAM IS BEING PUT INTO EFFECT AT THE REQUEST OF THE SECRETARY OF WAR AND WILL BE CARRIED OUT UNDER THE GENERAL DIRECTION OF THE LOCAL MILITARY AUTHORITIES. FULL AUTHORITY HAS BEEN DELEGATED TO THE FEDERAL RESERVE BANK OF SAN FRANCISCO TO CARRY OUT SUCH A PROGRAM.

I AM ASKING JOHN W. FENLE, ASSISTANT TO THE SECRETARY, WHO IS IN SAN FRANCISCO FOR THE PURPOSE OF HELPING THE FEDERAL RESERVE BANK TO PUT THIS PROGRAM INTO EFFECT, TO COMMUNICATE WITH YOU AND KEEP YOU ADVISED AS TO THE PROGRESS OF THE PROGRAM.

(Signed) H. Morgenthau, Jr.

SECRETARY OF THE TREASURY.

3/9/42

23

Miss Chauncey:

This is the attachment referred to in the Tolan  
wire of today.

Sent teletype - to be delivered to Tolan at  
1749 Pleasant Valley Avenue, Oakland, Calif.

Copy to be sent to Pehle at Federal Reserve Bank,  
San Francisco, by teletype.

12:50 p.m., March 9, 1942.

SUGGESTED PROGRAM FOR THE FEDERAL RESERVE BANK OF SAN FRANCISCO AND OTHER PUBLIC AGENCIES TO DEAL WITH PROPERTY OF EVACUEES FROM PACIFIC COAST MILITARY AREAS.

The success of the proposed program will depend upon placing complete responsibility for its execution in a responsible West Coast agency acting under the general direction of the local military authorities.

I - Scope of Problem

The evacuation on short notice of tens of thousands of persons from Military Areas on the Pacific Coast raises serious problems in connection with the liquidation of their property holdings and the protection of the property of such persons against fraud, forced sales, and unscrupulous creditors. Obviously the emergency will cause financial loss to the group involved. However, the following program is intended to accord to this group reasonable protection of their property interests consistent with the war effort.

II - Legal Authority:

Since the program is one basically to assist the evacuee in the liquidation of his property, it is expected that in most instances the evacuee will voluntarily avail himself of the facilities afforded by this program. Governmental sanctions will be necessary to deal with creditors and others who seek unfair advantage of the evacuees. There is ample legal authority now vested in the military authorities and in the Treasury Department which can be delegated to such West Coast agency to deal with this problem without necessity of obtaining further legislation or new executive orders.

III - Administration of Program:

The nature and urgency of the situation, coupled with the large volume of transactions that will require prompt handling, necessitates the program's being administered by an agency on the West Coast cloaked with full authority to act without reference to Washington. The over-all control of all aspects of the evacuation must obviously rest in the military authorities. Subject to this over-all control by the Army, the direct responsibility for the execution of the property aspects of the program should be placed in the Federal Reserve Bank of San Francisco, which has branch offices in Los Angeles, Seattle, and Portland. The Federal Reserve

Bank will be in a position to obtain the cooperation of other Government agencies, and of well-known and experienced individuals and institutions in the various communities throughout the West Coast area. This cooperation, together with the established integrity and ability of the Federal Reserve Bank, will enlist the confidence of all of the affected groups and discourage gouging by creditors or other self-seeking interests.

The Federal Reserve Bank will also work in close liaison with the Federal Security Agency, the United States Department of Agriculture, and other Federal, State, and local public agencies that can be of assistance in dealing with the property during the course of its liquidation. These agencies will undoubtedly be called upon by the military authorities to handle other aspects of the evacuation problem, such as the transportation and resettlement of the evacuees, and their reemployment in new areas.

The Federal Reserve Bank of San Francisco, which is the fiscal agent of the Treasury Department, will be clothed with ample authority to execute the program. The Treasury Department will lay down the broad principles and objectives of such program as well as the general procedure to be followed. The Department will also furnish the San Francisco Bank by airplane with the requisite number of trained experts to assist in working out the details of the program in the field and to participate in its execution. ~~If need be the Department is in a position to provide the San Francisco Federal at once with 100 or more men for this purpose.~~

The keynote of this program is speed. It is believed that it can be put in operation by Monday, March 9, 1942.

#### IV - Outline of Program.

A. Properly staffed offices under the direction of the San Francisco Federal Reserve Bank will be opened at once in the local communities from which evacuees will be moved.

B. Announcement will be made throughout the area by the Federal Reserve Bank of San Francisco that its representatives in these offices are prepared to assist evacuees with the problem of liquidating their property and protecting them against those seeking to take unfair advantage of their plight.

C. These representatives will assist in putting the evacuees in a position to obtain buyers, lessees, and other users of their property on fair terms. In cases where the evacuee is unable to select his own agent to dispose of his property, the Federal will be prepared to act as agent for the evacuee under a power of attorney or similar arrangement and take steps to liquidate the property on fair terms.

- 3 -

D. Evacuees threatened by creditors will be encouraged to come to the representatives of the Federal for advice and guidance. The Federal representative will also discuss the matter with the creditor with the view to working out a fair settlement and limiting the remedies that may be pursued by the creditor who threatens unfair action. By and large the mere existence of this program of helping evacuees will eliminate or forestall most of the sharp practices that are now feared.

E. In some cases the property of the evacuee may be such that its real value can only be realized at a future time, e.g., Japanese novelties. In such cases the Bank's representative will assist the evacuee in arranging for the storage of such property if that is the wish of the evacuee.

F. On agricultural properties the Bank's representative, with the assistance of representatives of the U. S. Department of Agriculture, will attempt to arrange for the leasing or sale of such property, or if need be for the growing of the crops, with a view to preventing their loss through inattention.

G. The Federal Reserve Bank of San Francisco and its representatives will be cloaked with adequate authority to cope with problems arising on the basis of existing circumstances. The program will be flexible and at all times the Bank will attempt to keep matters on a voluntary basis, satisfactory to the evacuee. Where these efforts fail it may be necessary for the Bank's representative to step in and take the property over for the purpose of obtaining a fair and reasonable liquidation.

It is expected that the setting up of this program and the accordance to the evacuees of facilities for the liquidation of their property should greatly expedite the departure on a voluntary basis of the evacuees from the military area.

3/4/42

TREASURY DEPARTMENT

27

INTER OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau  
 FROM Mr. White *HDW JW*  
 Subject: Silver Legislation

We are submitting a draft of the silver bill which, during the period of emergency, directs the cessation of silver purchases and authorizes the sale of Treasury silver at not less than thirty-five cents an ounce. We believe that it would be preferable to suspend silver purchases during the emergency rather than to seek permanent elimination of such purchases because:

1. It will call forth less opposition on the part of silver interests.
2. It will justify your raising the problem at this time purely as a measure for diverting labor and equipment to war uses.
3. It will not directly raise the question of the desirability of our silver policy in the past.
4. It will not prevent Congress from going farther and eliminating entirely all silver purchases, but the responsibility will be theirs and not yours.

If you agree with the foregoing, the following steps are suggested:

1. Have the President indicate whether he wants the silver question raised at this time. He may prefer not to stir up opposition in Congress on a matter of relatively small importance.
2. Get a statement from the War Production Board that (a) more silver on the market at current prices would help the war effort and (b) that silver mining is absorbing labor and equipment which could be more profitably used in the war effort.
3. Secure the support and acquiescence of Jesse Jones to the purchase by the Metals Reserve Corporation of high-cost copper, lead, and zinc from mines that depend on high silver prices to maintain production of these essential materials.

When these three steps are satisfactorily completed, you will probably want to discuss the problem with leaders in the Senate and the House before having the bill presented.

You may wish to read the appended memorandum setting forth in more detail the emergency silver program.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau  
FROM Mr. White  
Subject: Silver Legislation

We are ready to submit for your approval a draft of a bill providing for suspension of silver purchases and authorizing the Treasury to sell silver at not less than 35 cents an ounce during the period of emergency. The bill does not affect the Treasury's power to purchase silver for coinage or to issue silver certificates.

We feel it would be a mistake to include in the bill authority to sell Treasury silver except with a stipulated minimum price. The threat of the enormous Treasury supply of silver hanging over the market without a minimum price at which it could be sold would arouse much greater opposition to the bill by the silver interests, and might make passage of the bill uncertain. Moreover, we do not believe that the authority to sell silver is of immediate importance because with the entire domestic output offered in the market it is very doubtful whether there would be any substantial demand for Treasury silver at anything like current prices. The addition to the market of domestic output of possibly 50 to 60 million ounces (output for 1942 at 71 cents will be about 70 million ounces) should prevent the price of silver from rising above 35 cents for some time, and might well drive the price down to 30 cents.

If, in addition, an attempt were made to sell substantial quantities of Treasury silver in competition with domestic and imported silver, the price would be still further depressed--how much, of course, would depend on the quantity of silver the Treasury tried to sell. Furthermore, the amount of silver offered on the market would very likely be further increased by the fact that such legislation would encourage countries to sell some of the silver they now hold as monetary reserves.

Should the expansion in the industrial uses of silver prove to be so great that a shortage appears notwithstanding the added supply from domestic output, the Treasury could, under the terms of the bill drafted, sell some of its silver.

The drafted bill also contains a provision for the continued purchase of domestic silver at the 71-cent price for a period of three months after the enactment of the bill.

- 2 -

At the hearings and discussions on the bill will certainly last many weeks, the silver producers will have a period of at least four to five months in which to make whatever adjustments may be necessary. Silver mined during the period of suspension would not be eligible for purchase by the Treasury as newly-mined domestic silver when the emergency is terminated.

As the supply of silver available for industry will be increased to the full amount of the domestic output, and as the Treasury will be able to sell silver at 35 cents an ounce or more, it is not regarded as necessary to provide for lending Treasury silver for reversible industrial uses.

The advantages of suspending silver purchases at this time are several. They are as follows:

1. The labor, equipment, and materials released from mines which produce predominantly silver can be utilized in the war effort. The increased supply of silver in the domestic market will probably drive down somewhat the price of silver but with a lower price of silver more will be used in industry and more of the competing metals will be free for defense use.

2. The South American countries producing silver are accumulating gold and dollar balances now. Therefore, a slightly reduced price of silver will not significantly impair their exchange position particularly as the principal effect of the lower price will be to reduce profits withdrawn in dollar exchange by American mine owners.

Though it is true that our silver purchases are inflationary and though much can be made of that in public discussion, actually the extent to which the coinage of silver adds to the money supply of a country is so negligible as to warrant little emphasis on this aspect of the problem.

The chief objection to suspending the purchase of silver is that it will reduce the receipts and hence the output of mines producing copper, lead, and zinc along with silver. This is a serious objection in view of the need for these materials for defense, but it can be met very simply by the Metals Reserve Corporation which already has the authority and pursues the policy of paying higher prices for higher-cost output.

The application of this policy to the silver problem needs no new legislation but merely requires a prior understanding with Secretary Jones that he will take care of such contingencies. So that when appearing before the Congressional Committees you will be able successfully to meet any objection that cessation of domestic silver purchased by the Treasury will reduce the

- 3 -

supply of domestically-mined copper, lead, and zinc. With regard to foreign copper, lead, and zinc, produced along with silver, the Metals Reserve Corporation can, in exceptional cases, also pay slightly more for such metals. In any case, the decrease in price to foreign silver producers will probably not be large enough to seriously curtail production abroad during war time.

Two disadvantages in suspending the silver purchase program are:

1. It will be interpreted as a confession by the Administration that its silver purchase program was a mistake. I think it might be justly said, however, that the silver purchase program while not suited to a country at war was well suited to a country in depression. Nonetheless, the step will be heralded by the press and commentators as the "deserved end of a ridiculous policy instituted by the present administration."

2. If the suspension of silver purchases were to reduce the market price of silver below 35 cents an ounce, it would show an even greater disparity between the market price of silver and the value of silver bullion on the books of the Treasury. However, unless very considerable quantities of silver are sold at 35 cents an ounce, there will be no bookkeeping loss.

A BILL

To suspend certain provisions of the Silver Purchase Act of 1934 and of the Act of July 6, 1939, to provide for the sale of silver, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 3 of the Silver Purchase Act of 1934, 48 Stat. 1178 (U.S.C., title 31, sec. 734a), is hereby suspended: Provided, That nothing in this Act shall be construed to limit the authority of the Secretary of the Treasury to carry out the provisions of any contract or agreement made pursuant to said section prior to the enactment of this Act, or to acquire and make payment for silver pursuant to any such contract or agreement.

Sec. 2. Section 4 of the Act of July 6, 1939, 53 Stat. 998 (U.S.C., title 31, sec. 316c), is hereby suspended, such suspension to become effective on the ninetieth day following the date of enactment of this Act, and no silver mined during the period of suspension shall be eligible for deposit pursuant to the provisions of said section 4: Provided, That within such reasonable time after the effective date of such suspension as the Secretary of the Treasury shall determine, the coinage mints shall, in accordance with the provisions of said section 4 of the Act of July 6, 1939, and the Regulations of the Secretary of the Treasury issued thereunder, receive and settle for deposits of silver mined prior to the effective date of such suspension.

- 2 -

Sec. 3. The Secretary of the Treasury, without regard to any other provision of law, is hereby authorized to sell at home or abroad, in such amounts, at such rates in excess of thirty-five cents per troy ounce .999 fine, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest, any silver bullion in the monetary stocks of the United States not then held for redemption of any outstanding silver certificates.

Sec. 4. Sections 1 to 3, inclusive, shall remain in force only until December 31, 1944, and after such sections cease to be in force, any provisions of law amended or suspended thereby shall be in full force and effect as though this Act had not been enacted.

A BILL

To suspend certain provisions of the Silver Purchase Act of 1934 and of the Act of July 6, 1939, to provide for the sale of silver, and for other purposes.

As it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 3 of the Silver Purchase Act of 1934, 48 Stat. 1178 (U.S.C., title 31, sec. 734a), is hereby suspended: Provided, That nothing in this Act shall be construed to limit the authority of the Secretary of the Treasury to carry out the provisions of any contract or agreement made pursuant to said section prior to the enactment of this Act, or to acquire and make payment for silver pursuant to any such contract or agreement.

Sec. 2. Section 4 of the Act of July 6, 1939, 53 Stat. 998 (U.S.C., title 31, sec. 316c), is hereby suspended, such suspension to become effective on the ninetieth day following the date of enactment of this Act, and no silver mined during the period of suspension shall be eligible for deposit pursuant to the provisions of said section 4: Provided, That within such reasonable time after the effective date of such suspension as the Secretary of the Treasury shall determine, the coinage mints shall, in accordance with the provisions of said section 4 of the Act of July 6, 1939, and the Regulations of the Secretary of the Treasury issued thereunder, receive and settle for deposits of silver mined prior to the effective date of such suspension.

- 2 -

Sec. 3. The Secretary of the Treasury, without regard to any other provision of law, is hereby authorized to sell at home or abroad, in such amounts, at such rates in excess of thirty-five cents per troy ounce .999 fine, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest, any silver bullion in the monetary stocks of the United States not then held for redemption of any outstanding silver certificates.

Sec. 4. Sections 1 to 3, inclusive, shall remain in force only until December 31, 1944, and after such sections cease to be in force, any provisions of law amended or suspended thereby shall be in full force and effect as though this Act had not been enacted.

7/21 KR BB S.J.S. frow + h JR WK

MEMORANDUM

March 9, 1942.

TO: The Secretary  
 FROM: Mr. Sullivan

JLS

I understand that the Attorney General has stated that there will be destroyed 567,000,000 gallons of bootleg mash and that he has inquired why this could not be converted into distilled alcohol.

During the fiscal year 1941, the following quantities of alcohol, distilled spirits and mash were seized:

Alcohol - - - - -	40,449 gallons
Low-proof moonshine spirits - - - -	234,947 "
Mash - - - - -	6,866,078 "

It is the policy of the Alcohol Tax Unit to remove all distilling equipment and materials having a tangible value to a place of storage whenever the cost of removal is not out of proportion to the value of the property. All alcohol seized at illicit distilleries is removed, forfeited and cleared for disposition through the Procurement Division except in those instances where the distillery is in such an inaccessible place that the cost of removal exceeds the value of the alcohol.

The cost of removal and re-distillation of low-proof moonshine spirits exceeds its value at the time of seizure and hence is destroyed on the premises. The same procedure is followed with the mash. The 6,866,078 gallons of mash seized in 1941 was taken from 11,000 different illicit distilleries, almost all of which were in inaccessible locations.

Mr. Berkshire reports to me that he knows of no alcohol, low-proof moonshine spirits or mash in the custody of the Department of Justice and that the Treasury Department not only has no quantity of low-proof moonshine spirits or mash but does not contemplate any change in its policy to retain rather than to destroy either of these two commodities.

March 9, 1942  
10:31 a.m.

HMJr: Hello.

Operator: Mr. Patterson.

HMJr: Hello. Hello, Bob.

Robert  
Patterson: Hello, Henry.

HMJr: How are you?

P: Fine.

HMJr: Bob, I'd like if you could clear up something  
for me.

P: Yes.

HMJr: Is it correct or incorrect that the Army no  
longer accepts volunteers except for the Air  
Corps.

P: No, it accepts them for all.

HMJr: It does.

P: Yes. In two ways.

HMJr: Yes.

P: A man can go to a regular recruiting station,  
or he can go to his local draft board and stand  
forth as a volunteer and be sent in by them.

HMJr: Is that - that still is true?

P: That still is true.

HMJr: Because I was told yesterday by a General, who  
shall be nameless, that they no longer took them  
other than for the Air Corps.

P: Well - no, they'll take any recruits. They no  
longer can specify their branch of service, like  
infantry or cavalry or field artillery or some-  
thing. They just are taken into the Army at the

- 2 -

recruiting station, sent to a reception center, and are there assigned to a branch, and they have no right to take their own.

HMJr: Yes.

P: But they'll take recruits.

HMJr: But during that.....

P: I made inquiry on it within the last week.

HMJr: You did.

P: Yes.

HMJr: But once they get in there, if this man wants to be a candidate for the officers' training school once he gets in after his three months, he can become a candidate, can't he?

P: Yes.

HMJr: What?

P: Yes.

HMJr: Is that correct?

P: Yes. That is right.

HMJr: But let me just go through - if a man wants to volunteer, he goes to his - he goes where?

P: He can either go to an Army recruiting station.....

HMJr: Yes.

P: .....as in Boston or New York; or he can go to his local draft board.

HMJr: I see. And say he wants to volunteer. Would it be an awful lot of bother to have one of your people just give me the thing in Army language?

P: I'll send a little memo over to you.

- 3 -

HMJr: Just have somebody write it out.

P: I'll send a little memo over to you.

HMJr: Just if a person wanted to - a boy wanted to volunteer, how would he do it.

P: Yeah.

HMJr: And then.....

P: I've got the thing up because it affects - my own boy is going to do it.

HMJr: Well.....

P: And he - I told him to go to the Army recruiting station in Boston.

HMJr: Your own boy's going to do it.

P: Yeah.

HMJr: And then - did you work it out from them - I mean, how he can become a candidate for officers' training?

P: He - yes, he can - he'll be taken in and sent to one of what they call the replacement training centers.

HMJr: Yes.

P: Infantry or artillery or cavalry or anything else, and he makes application to go to an officers' candidate school and is eligible to go after four months.

HMJr: I see. Well, does it.....

P: He will have to serve in the ranks four months.

HMJr: Does it make a difference what reception center he goes to as to what branch of the service he wants to go to?

P: Yes. The reception - oh, no, not reception center.

- 4 -

HMJr: Well, what's the next thing where he.....

P: Replacement training center.

HMJr: Does it make a difference?

P: Well, he - the replacement training center will, when he gets into one of those - that's for infantry, say, that pretty much sets what branch of the service he's going to be assigned to.

HMJr: So if he wants to go into infantry or cavalry, he's got to make up his mind at the time he goes in.

P: Well, yes, and he could only state his preference and he may not get sent to it.

HMJr: I see.

P: In the old days, a year ago, a man who volunteered for the regular Army could say, "I want to serve in the infantry."

HMJr: Yeah.

P: And that would be the term of his enlistment.

HMJr: Yeah.

P: He can't do that any more.

HMJr: Yeah.

P: All he can say is, "I would prefer to serve in the infantry." Maybe he gets it, and maybe he's sent to the Quartermaster Corps.

HMJr: I see.

P: But I'll send you a little memo over.

HMJr: Would you?

P: You bet.

HMJr: I mean, just the way you'd do it for your boy; because I have my boy in mind also.

P: Yeah.

HMJr: You see?

P: Yeah.

HMJr: And he's interested.

P: Yeah. The Air Corps, of course, is a separate thing. You can volunteer direct for the Air Corps.

HMJr: No, he isn't thinking of the Air Corps.

P: That's that Flying Cadet Course, and so on.

HMJr: Yes.

P: That's a different thing.

HMJr: And is there anything over there that you've got which describes each of the services?

P: Yes.

HMJr: There is.

P: Yes.

HMJr: Could that be sent over, too?

P: Yes. I can do it.

HMJr: Thank you so much.

P: Right. Good-bye.

41

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

March 9, 1942

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

Dear Mr. Secretary:

The following is the information which you requested with respect to enlistment in the Army:

Men aged 18 to 36 may enlist at any U.S. Army Recruiting Station and men aged 18 to 45 may volunteer for induction at their Selective Service local board. At both the recruiting station and the local boards men aged 18 to 27 may enlist in the Army Air Force. There are only two choices available, the Army Air Force and the Army of the United States.

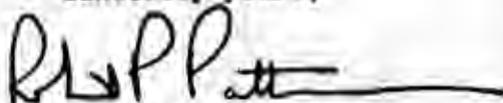
At the reception centers where the men are sent after induction they are classified and assigned to the various branches of the service. In their classification they may state a preference for a branch of the service, such as the Field Artillery, and if there are vacancies in such branch and they possess the requisite qualifications, they are assigned to the branch of their preference.

All men in the ranks have an opportunity to qualify for an Officers Candidate School after three months service as an enlisted man. It is expected that in this calendar year there will be approximately 75,000 commissions given to graduates of the Officers Candidate Schools in the Ground Forces alone. Men who enlist in the Air Force and pass the necessary test for a flying cadet at completion of their training period are commissioned in the Air Force. Most of the flying personnel in the Air Force, such as pilots, navigators and bombardiers are commissioned personnel. The Air Force offers one of the broadest opportunities for a young man to become a commissioned officer.

I trust the foregoing information is sufficient for your purposes. If not, I will be glad to furnish you further details.

Best wishes.

Sincerely yours,



Robert P. Patterson,  
Under Secretary of War.

March 9, 1942  
2:38 p.m.

HMJr: Hello.

Operator: Miss Tully.

HMJr: Hello.

Grace Tully: Yes, Mr. Secretary. How are you, sir?

HMJr: I'm very fine.

T: That's good.

HMJr: Physically.

T: Good.

HMJr: Mentally, I'll let you say.

T: (Laughs) You sound all right to me; I think I'll pass you.

HMJr: Thank you. If the President's is free and kindly, I'd like to have a little chin Wednesday morning.

T: I see. All right, sir.

HMJr: You don't sound very enthusiastic.

T: I don't know what's happening Wednesday morning, but I can let you know. I heard a story about you.

HMJr: What was that?

T: Got a minute?

HMJr: I've got ten minutes.

T: Well, the President's supposed to be driving around - up around Hyde Park.....

HMJr: Yes.

T: .....and got into the adjacent county.

- 2 -

HMJr: Yes.

T: And ran out of gas.

HMJr: Yes.

T: Have you heard it?

HMJr: No, no.

T: And so he - they wanted to get some gas and they asked him for the money, and he didn't have any money with him.

HMJr: Yeah.

T: So he decided he'd have to get a check cashed and he went to the bank in this little place and presented the check.

HMJr: Uh huh.

T: Well, they looked at it, and it was a pretty big check to buy gasoline with.

HMJr: Yeah.

T: So they decided they'd have to call Secretary Morgenthau and ask him about this check, so they called you.

HMJr: Yeah.

T: And you said, well, yea. He told you all about his running out of gas, you see, and didn't have any money, and so forth and.....

HMJr: Wait a minute. The President called me or the bank called me?

T: No, no, the vice president of the bank called you.

HMJr: Oh, the vice president of the bank.

T: Yes. Because it was so big a check he wanted your say-so on it, whether it was all right to cash it.

- 3 -

HMJr: Yeah.

T: And so you said, "Well, now, you've told me all the circumstances and you told me it's a big check. How big is it?"

HMJr: Yeah.

T: The vice president says, "It's for a million dollars."

HMJr: Yeah.

T: And you said, "Oh, give him a hundred. He won't know the difference."

HMJr: (Laughs)

T: I haven't told that to him yet, but I will. (Laughs)

HMJr: (Laughs)

T: I haven't heard a real good joke in a long time, and I like that one.

HMJr: (Laughs) Oh, that's wonderful.

T: That's pretty fresh on your part, but still..... (Laughs)

HMJr: Pretty fresh on my part? (Laughs) Oh, that's the first good belly laugh I've had in I don't know when.

T: Good.

HMJr: Come up and see me sometime.

T: All right, fine, I will. (Laughs)

HMJr: (Laughs) Oh, good.

T: I'll call you later on the other.

HMJr: All right.

T: Good-bye. (Laughs)

March 9, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in the Secretary's Office  
 March 9, 1942  
 2:30 p.m.

Present: Mr. A. Law  
 Mr. W. Morris  
 Mr. T. Helgeson  
 Mr. C. Bland  
 Mrs. Klotz ) Treasury  
 Mr. White )

Three of these men were from the Pontiac plant in Flint, Michigan. (The fourth was from the C.I.O organization in Washington.) They had telegraphed last week to Secretary Morgenthau asking for an appointment. This conference was in answer to that telegram.

Their spokesman stated that the plant normally employed 5,200 persons, but that since January 28 only 500 had been employed (they also had a three-week lay-off during the Christmas season). Of the 500 now in the plant, 250 were tool and dye workers who were doing virtually nothing. These tool and dye workers, though on the pay roll, had requested to be permitted to go to some other plant where they could be helping to produce, but were told they would have to resign to do so. Inasmuch as that meant loss of seniority, they preferred to stay though they were not engaged in production.

The representatives of the men had requested a plant manager to give them some indication of when work might be resumed, but were unable to get any satisfactory explanation from the plant manager. They hoped that the Secretary would be able to suggest how they might proceed to get some information or assurance that there would be work. They stated that unless the men were promised work soon, some of the men would have to move and try to get work in other parts of the country. They also said that the morale of the men would be seriously effected.

The Secretary asked what they thought their plant could produce. They said they thought it could produce ambulances or fire trucks. The Secretary asked whether they thought they could produce "invasion landing" boats. They replied that they had a modern plant with large presses, welders, and other skilled workers and they felt the plant could be adapted to such work.

- 2 -

The Secretary telephoned Assistant Secretary of the Navy Patterson, and told Patterson that he had this delegation of workers from the Pontiac plant in his office who wanted to obtain some work for their plant. He asked Patterson whether he could give them any time to listen to their story to see whether he (Mr. Patterson) could be of any assistance in getting that idle plant working on some defense needs. Patterson replied that if they would come over at once he would talk with them. They left at once for Mr. Patterson's office.

The Secretary asked the men to let him know of the results they obtained.

*2/10/44*

March 9, 1942  
2:56 p.m.

HMJr: Hello.

Operator: Mr. Patterson.

HMJr: Hello. Bob.

Robert  
Patterson: Yes, Henry.

HMJr: Henry. I'm back at you again today.

P: Yeah.

HMJr: Bob, I've got a very fine delegation here  
of automobile workers from Pontiac. Remember  
you and I went into that once before?

P: Yeah.

HMJr: And with your help we were successful. They  
represent five thousand workers from Pontiac  
with no work and nothing in sight. Hello.

P: Yeah.

HMJr: And they want to go to work.

P: Yeah.

HMJr: I wondered if you could give them enough time  
to hear their story, because.....

P: I'd be glad to see them. I can see them right  
now if they can come over.

HMJr: That's wonderful.

P: I'm in the new War Department building at  
Twenty-first Street and Virginia Avenue.

HMJr: Well, how can I get them into your building?

P: Oh, they'll pass them.

HMJr: They will be?

- 2 -

P: Yes. I'll send down word.

HMJr: Well.....

P: How many?

HMJr: There are four of them.

P: Yes.

HMJr: Mr. Bland - hello.

P: Yes.

HMJr: Mr. Law.

P: Right.

HMJr: And Mr. Morris.

P: Mr. Bland and party.

HMJr: Mr. C. Bland and party.

P: Right.

HMJr: I'll send - they'll be there in ten minutes.

P: Right.

HMJr: And, as I say, they want to go to work.

P: Yeah, Yeah. I'll be glad to see them.

HMJr: It's a General Motors plant.

P: Yeah.

HMJr: Let me know if there's anything you can do.

P: I will, Henry. Send them over.

HMJr: Thank you.

P: You bet.

March 9, 1942  
3:00 p.m.

## FINANCING

Present: Mr. Haas ✓  
Mr. Buffington ✓  
Mr. Murphy ✓  
Mr. Lindow ✓  
Mr. Bell ✓  
Mr. Stewart ✓  
Mr. Viner ✓  
Mr. Sullivan ✓

H.M.JR: Say, listen, Dan, if you are going to go to War Bonds instead of Defense Bonds, why don't you stop the buying?

MR. BELL: We have.

H.M.JR: As of when?

(Mr. Stewart and Mr. Viner entered the conference.)

MR. BELL: Oh, last Friday.

H.M.JR: Did you?

MR. BELL: Yes. We have got in the mill eighteen million bonds.

H.M.JR: Well, you have got twenty-five million on hand.

MR. BELL: Yes, and we have got eighteen million more in the mill. That is over forty million bonds we have got on hand that we can't possibly use before July 1.

- 2 -

H.M.JR: I don't agree with you. I believe you can sell War Bonds and have them stamped Defense Bonds and nobody will know the difference. Walter Stewart wouldn't know the difference. He never looks at a bond.

MR. STEWART: I certainly wouldn't know the difference.

H.M.JR: Would you look at a bond to see whether it is a War Bond or a Defense Bond?

MR. STEWART: No.

H.M.JR: There you are. He is just the people.

MR. BELL: Well, I am not a promotion man. I would like to do that. You will have to talk to Harold Graves' section.

H.M.JR: Well, I don't care, Dan, I am not going to wait after the first of July for anybody.

MR. BELL: Well, we are planning to go July 1 to War Bonds and dispose of as many of what we have got in the mill as possible.

H.M.JR: Mr. Stacy May - have you got a pencil?

MR. BELL: Yes.

H.M.JR: ... says that January - his figures show that there were two and a half billion dollars spent, he figures, on the war.

MR. BELL: January?

H.M.JR: January. February, his tentative figure is two billion six. We spent four billion in June and five and a half in December. That was as of March 7. I am planning to see him every two weeks now.

MR. BELL: That includes all expenditures?

- 3 -

H.M.JR: Everything. He says it includes factories which are being started and Lend-Lease and everything for war.

MR. BELL: Well, ours includes Lend-Lease, but they don't include RFC.

H.M.JR: Well, he said everything that is for the war.

MR. BELL: Does that include private?

H.M.JR: No, I don't think so.

MR. BELL: Just governmental expenditures?

H.M.JR: Yes. Call him up, Haas, and ask Stacy May on that question, will you? Ask him, George, whether that is private or governmental.

MR. BELL: I think he includes all the Defense Plant and the RFC and those subsidiaries plus the Treasury, and he may put his on his checks-issued basis.

H.M.JR: Can I pass along the compliments you gave the boys at lunch?

MR. STEWART: Yes, indeed.

H.M.JR: Mr. Stewart said that George and you men were doing a better job in this war than was done in the last war in preparing the technical material for financing, which I thought was quite a compliment, coming from Mr. Stewart.

MR. HAAS: Thank you. We appreciate it greatly.

H.M.JR: He said you didn't look quite as much like cranks as some of the other fellows.

All right, Dan, you are licked before you start.  
(Laughter)

- 4 -

MR. BELL: I suppose so. What is the use of starting then, if we are already licked?

H.M.JR: Well, go on, let's have the program.

MR. BELL: Well, it is quite large, and I suppose the best way to do is just about what we did this morning. Viner and Stewart will take these tables and eliminate some of the detail and let each one of these boys explain what the table means, and we will get at the final problem that way.

Lindow, would you give the Secretary that Table 1 and 2 and just hit the high spots?

MR. LINDOW: I think you have seen these tables in an earlier draft. The first table shows the flow of goods and services to Government and to private sectors of the economy and compares the application of incomes made available as between these two sectors, putting the savings and taxes against the Government sectors, since we can borrow the savings either directly or indirectly, and it shows that Government will have available through taxes and savings eleven billion dollars less than it will spend for goods and services. Similarly, private persons will have available for spending after their savings eleven billion dollars more for goods and services than there are goods and services available.

H.M.JR: It sounds like a phoney to me. (Laughter) I mean, the fact they come out the same isn't an accident?

MR. LINDOW: No, that is the mirror of it. The fact that Government doesn't take away that extra eleven billion from individuals leaves it with them and leaves us short.

H.M.JR: I see.

MR. LINDOW: That is the so-called gap.

Now, from this table we have picked up the savings

figures which add to twenty-six point five billions, and we usually apply them--

(Discussion off the record.)

MR. LINDOW: So in the second table we take the amount that we have to finance, which is thirty-nine point eight billions, and we say that there are two sources of funds, two broad sources. The first is the savings and accumulations from current income during the year, which we get from the first table. So much for personal savings, so much for business savings, so much for depreciation funds that aren't spent by corporations, those items. We distribute them over the various types of Government securities which we would sell. We would do that by applying some of the savings as direct investments, individuals buying baby bonds, for example, and also the indirect items where they might repay a bank loan or they pay money to insurance companies, and they have a net increase in their assets, and then they can buy ordinary marketable issues, so we do that for each type of Government security, make the best estimates we can. Then we have a residual amount which has to be borrowed as well, but we can't get it from savings because there aren't any left. We have broken the residual amount down into the funds we can get from idle balances.

H.M.JR: How much can you get from savings?

MR. LINDOW: Twenty-six and a half billions.

H.M.JR: And that is what we should get from savings?

MR. LINDOW: Yes, sir. No, that wouldn't be in savings bonds, Mr. Secretary, because some of it we would get through banks. If an individual pays off a bank loan, then we could borrow the same amount from the bank.

H.M.JR: How much are you sure we could get through War Savings Bonds?

MR. LINDOW: Seven billion two.

- 6 -

MR. BELL: That is from a non-inflationary source.

MR. LINDOW: That is right, that is from current incomes. We show some others that would come from idle balances. We have a billion and a half in that, giving us eight points seven altogether, but you see the amounts individuals would pay to banks - a fellow pays on a housing mortgage, for example. If he pays off that loan, then we can borrow from the bank the same amount, and it is just as good as though we got it directly from the individual, because the bank deposits went down when the fellow paid off his loan, and then the bank can buy a bond from us and the deposits will go back to just where they were before, and there has been no inflationary effect, so out of the twenty-six and a half billions total savings, we figure we can only get in savings bonds a little over seven billion, but we would get from banks eight billion.

(Mr. Sullivan entered the conference.)

(The Secretary held a telephone conversation with Alex Budge of Honolulu.)

MR. SULLIVAN: I turned this over to Randolph Thursday. There was a telegram.

H.M.JR: I know. Tell Randolph, and yourself, put a little heart in this. The main thing I am worried about is the interest.

MR. SULLIVAN: There is quite a lot to it.

H.M.JR: All right, but sometime tomorrow. They are worried over there, and they don't know when they are going to be attacked again. You know. Haven't we got the right to waive interest?

MR. SULLIVAN: No.

H.M.JR: Have you got to charge six?

MR. SULLIVAN: Sure.

H.M.JR: Under the law?

- 7 -

MR. SULLIVAN: If they are financially unable to pay it, you can compromise the principal as well as the interest, but that isn't the situation. There is a great deal more in this thing.

H.M.JR: Is there?

MR. SULLIVAN: Yes, sir.

H.M.JR: He says it is the little fellows. Couldn't the fellow that has to pay five thousand dollars or less get the right to waive interest?

MR. SULLIVAN: You can always compromise for inability to pay, sir.

H.M.JR: I know, but that keeps them on the--

MR. SULLIVAN: I think it would be very bad to give them a blanket waiver, because there are a great many of those people who can afford to pay better than most people in this country.

H.M.JR: Well, I haven't been in on it, but let's have a little heart over reason.

MR. SULLIVAN: All right.

H.M.JR: I mean, I would approach it from that angle, John.

MR. SULLIVAN: Well, it is very difficult not to go overboard. I mean, you get enough hard cases to--

H.M.JR: No, h-e-a-r-t.

MR. SULLIVAN: I know, but I say it is difficult not to go overboard in the direction in which you are pointing.

H.M.JR: Well, I wouldn't mind going overboard on interest. If it was a question of waiving interest, I wouldn't worry about that, even though we favor a couple

of big fellows.

MR. SULLIVAN: Well, we will talk with you about it.

H.M.JR: I mean, that wouldn't worry me.

MR. SULLIVAN: We will talk with you about it.

H.M.JR: O.K.

MR. LINDOW: I wanted to explain that the twenty-six point five billion that we estimated for savings, as well as all the other estimates, which make all these parts into a logical whole, is based on existing habit patterns and pressures as we can see them at the time.

Now, if you had a lot of rationing and that resulted in sterilizing some of the excess funds, it would result in greater savings. If you stepped up the baby bond program a great deal, that might result in greater savings and further increases, you see. So that the twenty-six five is based on what we could see at the time, rather than allowing for the future steps which were not already in the cards as we could see them.

MR. BELL: Even advance of the taxes from last year to this year might have some effect.

MR. LINDOW: That is right. Although we did take into account the effect of the new tax bill which had been stated in the President's budget.

MR. BELL: But not the withholding end of it?

MR. LINDOW: That is right. So adding together, then, the twenty-six five from current savings and thirteen three from what we might call inflationary sources, you get the thirty-nine eight that you have to get, and that includes borrowing from banks of eight point eight that doesn't come from current savings. That is, it isn't offset by reductions in loans or the mere accumulation of bank balances.

- 9 -

MR. BELL: You will notice, Mr. Secretary, that this provides for seventeen billion dollars borrowing from the banks, in the next to the last column.

MR. LINDOW: This figure over here.

MR. BELL: Eight two comes from non-inflationary sources, and eight eight comes from inflationary sources.

MR. LINDOW: We have the two new proposed securities in here too. The new short-term one which we figure will yield about three point eight billions and the new long-term one which would give about two point six billions. Also tax notes which we figure at a billion two.

H.M.JR: Well, I will say this, George, this is what I asked for anyway.

MR. HAAS: That is right. That is what you have been asking for.

H.M.JR: You remember, I said where can we get it from.

MR. HAAS: That is right.

MR. LINDOW: I might say a word about the estimates. We talked to each of the members of the group that you asked to have a representative appointed from each agency. We went over the general approach and the figures in this table and although there are differences about individual figures here and there, nobody felt that the conclusions you would draw from the table were misleading.

H.M.JR: Would you publish this, Walter?

MR. STEWART: Well, if I published anything it would be this first Table 1. Then it seems to me I would do it at a time when I was making a drive for some particular way of meeting the gap, some combination of--

H.M.JR: You wouldn't publish Table 2?

MR. STEWART: Those seem to me more - having a larger margin of error because Table 2 carries out the assumption that you are going to have the gap of eleven, that you have got to meet it by some method. If one said there is a gap of eleven, it has got to be met by some method, such as withholding taxes or more rationing or something else, what combination would meet it? This poses the question and this undertakes to answer it.

H.M.JR: How about you, Jake?

MR. VINER: Why, I think it would be helpful to publish one. It just possibly might result in suggestions which would either improve the estimating or - it would also be educational in terms of explaining to the public that there is a gap that has not yet been solved. I would agree with Stewart that I wouldn't publish two quite in its present form. I would like to see two published, too, but just reword it a little so it is more like one, as a problem chart. This is still in a preliminary stage, because two really states - two is one carried into application and broken down, but it is - two has not yet been reworded as much as one has been reworded so as to indicate that it is a problem chart. Don't you agree that if two were to be published, it would be more of these--

MR. LINDOW: Yes.

MR. VINER: ... warning labels. I think I would be inclined to have two published too, because if outside people were going to get to work on that, two would give them a good deal of help in testing one.

MR. LINDOW: The only difficulty I see in publishing either table is that it might be misinterpreted. Eleven billions - the eleven billion problem has to either be solved, Mr. Secretary, in order to retain the price assumptions we have made here, or the price rises will be a lot larger than we have allowed for, in which case the gap will be bigger than eleven billions.

H.M.JR: But Congress hasn't yet got very excited

- 11 -

about this price question. It isn't - isn't one of the ways to get them excited to show them something like this?

MR. BELL: I think if you were making a drive for additional taxes or something like that, it might be a good time to bring it forward.

MR. VINER: I think that Stewart's point that one and two oughtn't to be published unless there was to be some suggestion to the public as to ways in which this problem could be met - in other words, the Treasury oughtn't to throw a fiscal problem to the public. The Treasury has got to present programs to the public. It presents a problem and it also has to present at least a choice of solutions so that you would have to have in mind either an intensification of the tax program or withholding or forced saving or an intensified Defense Savings Bond campaign or say, "This is going to be Henderson's part."

MR. HAAS: Henderson has already put out the conclusion of the table.

H.M.JR: Yes, but nothing like this.

MR. HAAS: But not the detail of it, and he - that is all I had.

H.M.JR: What do you think, George?

MR. BUFFINGTON: I think it is very enlightening to feel as Mr. Viner does, until you have got some suggested solutions, it might be a dangerous or unwise thing to put it out.

H.M.JR: I think I will sort of try it out. Now, where do we go on from here? Let me get the whole story first. What is the next thing?

MR. BELL: The next step is the table that Mr. Murphy will explain on the monthly financing. I don't think he needs to go into detail. He can point out the main figure there, the amount that will come from the member

- 12 -

banks of the Federal Reserve System. These two tables don't jibe as to figures, because this covers fifteen months - sixteen months, rather.

H.M.JR: Go ahead, Professor.

MR. BELL: Yes, sixteen months, whereas the other one covers the fiscal year.

MR. MURPHY: This table is to show by months how we might finance a program set out by the fiscal year 1943. We set out by estimating that during this time we will get twenty-nine point nine of revenues, and I think it would be apropos to mention in this connection that in distributing these revenues between months in accordance with the proposal of Mr. Paul and yourself before the House Ways and Means Committee, you don't get the seven billion dollars that the budget provides for during the fiscal year. You get seven billion dollars and more on an ultimate annual basis, but you don't get it as provided in the budget during the fiscal year. So we have assumed in this table, putting it on a budget basis, that you will get seven billion dollars in the fiscal year and have distributed on that basis, but in order to realize the whole twenty-nine point nine, it would require to that extent a tightening up in the tax proposals to advance collections so that you would get seven billion dollars during the fiscal year. That gives us our first figure of twenty-nine point nine of revenues to be received during the sixteen-month period.

During that period, defense expenditures will be sixty-four point three, distributing the amount on a constantly rising scale. Non-defense expenditure is eight point five, giving us seventy-two point eight of expenditures. You will have a budget deficit of forty-two point nine, and you will need four point three in addition for the corporations, giving the total amount to be financed, forty-seven point two.

Now, we have estimated that you will be able to realize a total of five point five from trust funds. That includes the two billion dollars addition to the

- 13 -

Social Security program. And nineteen point one from non-marketable securities, which include the two tap securities. That will leave twenty-two point six to be raised in the market during this period, of which we estimate that you can get three point two from purchasers other than banks. You see, the initiation of taps will in itself take out most of the purchasers other than banks for your market securities. That will leave nineteen point four to be purchased by banks, of which we estimated that perhaps one point three could be sold to non-member banks. That is assuming that they take the same share of the increase that they have of the present holdings of securities, and an additional four point three could be sold to the banks merely replacing an equivalent amount of loans which will be decreased as a result of restrictions on consumer credit, priorities, allocations, et cetera. That will leave thirteen point eight to be taken by the Federal Reserve System and by the Federal Reserve System I mean the System and its members combined.

If excess reserves will be maintained at their present level, ignoring all factors other than the increased reserve - amount of required reserves which will occur merely from the member banks buying bonds and thereby increasing their deposits, the Federal Reserve Banks will have to purchase fifteen dollars and twenty-four cents worth of securities for every dollar's worth that is taken by the Federal and members together. If they did that, the purchases by Federal would exactly offset the increased required reserves that would occur from the member banks purchasing the others. If that were done, then during this sixteen months' period, the member banks would purchase eleven point seven billion and Federal would purchase two point one billion of Governments.

MR. HAAS: That would increase reserves--

MR. BELL: In other words, existing reserves of three billion plus and to sell to the member banks eleven billion seven hundred million dollars to maintain those

reserves, the Federal Reserve banks would have to buy two billion one hundred million dollars worth of securities in the next fifteen months in the market in order to supply those reserves.

H.M.JR: How about if they change those reserves?

MR. BELL: Well, that is the same effect.

MR. MURPHY: Another way of doing it.

H.M.JR: Is that an easier way? Doesn't that make it mentally easier for the banks?

MR. MURPHY: You mean the requirements?

H.M.JR: I mean why can't they lower it.

MR. MURPHY: We have argued, and it would be better to purchase securities in the market rather than lower reserve requirements for these reasons. In the first place, it permits a much finer, nicer adjustment than you can get by changes in reserve requirements. You can only change those very occasionally; and, in the second place, when reserve requirements are reduced from the point of view of an individual bank, it merely means this. It has the same amount of money that it had before, but a law has been changed. Less of it is required. On the other hand, when the Federal Reserve System purchases securities in the market, from the standpoint of any individual bank, the only thing - impact on that bank is that it is getting additional money. The clearings are in its favor. Its money is piling up and it seems to us that it is a far more effective psychological stimulus to a banker to find money coming in through clearings with his old requirements the same than to merely say, "You have got the same money as before, but we will merely cut down your requirements." It seems to have a much more effective lever.

H.M.JR: Theoretically.

MR. MURPHY: I would say practically.

- 15 -

H.M.JR: Theoretically I think it is lovely. How are you going to do this? On February 13 Guaranty Trust in New York had one-third - one-quarter of all the excess funds in New York, and they wouldn't buy any of our bonds except fifteen million. Now, how are you going to have that flow in there?

MR. MURPHY: Well, I would say two things.

H.M.JR: How are you going to control that?

MR. HAAS: Explain the bills, Henry. That will do it.

H.M.JR: I mean, how are you going to do it? Here is one bank that has one-quarter of all the excess reserves.

MR. MURPHY: Could I make two points there, Mr. Secretary. In the first place, contrasting open market operations with reduction in reserve requirements, which do you think would have the most influence on your Guaranty people?

If that three hundred million became four hundred million, as far as they could see, merely because they had gotten new money on one end, or if they simply received a notice from the Federal Reserve bank, a balance sheet stating exactly the same as it is, saying, "You know - your requirements are less. Now the excess is five hundred instead of three hundred."

And the second point, if we put out these tap securities and out our long long market and our non-banking market on a tap basis, then having segregated the bank market, we will be able to meet the Guaranty Trust Company half way. What Guaranty wants is short securities.

- 16 -

H.M.JR: That has got nothing to do with excess reserves. The way you are going to do it, the Guaranty - their excess cash will just increase by that much.

MR. BELL: Not necessarily, because the Federal wouldn't necessarily have to buy it from them. It could buy it from some other bank. The excess of the Guaranty could remain the same. They could remain the same so far as the Guaranty is concerned.

H.M.JR: Are they going to buy from banks? They are going to buy from Government dealers.

MR. BELL: No, but if the Federal is buying in the Government market and increasing the holdings of the banks in general, the Guaranty isn't going to want to increase its reserves. It has got plenty. The bank that wants excess reserves will sell securities.

H.M.JR: They can do that now.

MR. BELL: That is right.

MR. MURPHY: Even the banks that sell no securities will have their excess reserves increased.

H.M.JR: Henry, your plan is beautiful, but you rely - I have got to sit back here and rely on the Federal Reserve Board from day to day. On the other hand, if they change their requirements, then it is done. Otherwise, I have got to be after them every single day to do something. If Mr. Eccles doesn't like it one day, he doesn't do anything. I mean, I have got to rely on them from day to day. On the other hand, they do this thing in a lump sum and then - I mean, they just change the reserves over night, and it is done.

MR. BELL: Well, we were hoping that if we could carry through this whole program--

H.M.JR: I mean, I have got to sit here and at the pleasure of Mr. Eccles, how much he is going to buy each day. Then they get in an argument, and for one week

they may not do anything. I mean, if you had a thing which was mechanical, like making the odds on a racing board, how much money you put in, the odds automatically went up and down, so that the thing disappeared automatically through machinery, I would be for you. I mean, if there was so much dropped in here and then you had to multiply - a machine worked electrically and did the multiplying on the thing, I would be for you, but that happens to be Mr. Eccles, and Mr. Eccles hasn't always been for two and a half percent money.

MR. MURPHY: Well, could you secure a commitment with Mr. Eccles, Mr. Secretary, by which until the commitment was dissolved by mutual consent, and of course, it would have to be endorsed by the multiplicity of authorities they have over there, agree to keep excess reserves at a stipulated level by open market operations?

MR. BELL: At a minimum.

MR. MURPHY: At a minimum figure.

MR. BELL: That was our hope.

H.M.JR: We have had agreements with them on buying bonds and after he goes three days, he gets cold feet. If you were dealing with - what do they call this, pari-mutuel? If you were dealing with a pari-mutuel that you stick to much money in, and up comes so many figures--

MR. HAAS: That is what you need. We were trying to work out some. We recognized the need for something like that.

H.M.JR: I don't know how it works. I know you bet so much - I have seen it once in my life - and then the thing changes. Well, if you had a formula that you borrowed so much and automatically it went that much, it would be fine, but you are up against this human element.

MR. HAAS: That is right.

H.M.JR: Let Viner and Stewart - they always are friendly with the Federal Reserve. I don't mean to be

- 18 -

sarcastic. I mean that seriously. I mean, they are always for using them. Would you be willing, if you were Secretary of the Treasury, to have to rely on a day to day - either of you - a day to day operation?

MR. VINER: At the present time you have no alternative. The question is, which form shall the reliance take? If you can get an agreement from them to maintain a minimum of excess reserves, I think you have gotten a great deal. Now, I know from past experience that if it were open market operations they might work so slowly and so grudgingly that it wouldn't do the job.

H.M.JR: That is what I mean.

MR. VINER: But I don't see why you oughtn't to get a firm agreement from them that they will maintain it - they will not let excess reserves fall below a particular minimum, and then I would say it is not a matter of very great consequence to you which of their two methods they use.

H.M.JR: Can you write a formula, what the minimum should be?

MR. VINER: I would ask Dan Bell, and then I would write it for you.

MR. BELL: We think the existing level is all right.

H.M.JR: Well, it is too tight.

MR. BELL: Well, it is all right if they are spread properly.

H.M.JR: Yes, but you can't spread them, Dan. We went right up against this thing last time.

MR. VINER: Well, I would say two things.

H.M.JR: It was too damn tough.

MR. VINER: I would have a minimum level and also a minimum level for New York.

- 19 -

H.M.JR: What is the sense of having the thing so tight that you are operating around with a billion eleven - twelve hundred million and with one bank holding three hundred million.

MR. VINER: New York is in a special position.

H.M.JR: I don't see what is to be gained by keeping it so tight. It keeps interest rates hard, keeps short money hard. I don't get it. They have got me in a vise. What were you going to say, Jack?

MR. VINER: I would say that I would like to see you get a pledge both as to the minimum over-all excess reserves and also as to the minimum excess reserves in the New York money market, because there is a special situation in New York.

H.M.JR: Right.

MR. VINER: And I think that New York situation is relatively going to get worse rather than better.

H.M.JR: I agree with you there.

MR. VINER: You have fundamental forces working to--

H.M.JR: Can they do that? Can they have "X" for the country and "Y" for the area?

MR. VINER: They can do that by changing--

MR. HAAS: Changing designations.

MR. VINER: They can do it partly that way. I think they might also conceivably do it by doing their open market buying in that form which New York buys heavily rather than in which the country buys.

MR. BELL: In other words, they can sell short-term securities, or buy short-term securities.

MR. VINER: You see, if they buy short terms, that tends to build up the New York excess reserves rather than the country's. If they buy long terms, that

- 20 -

tends more to build up the country's excess reserves. But, you can also reclassify New York. Is that the correct term?

MR. HAAS: Reclassify, yes.

MR. BELL: I don't know that it is quite clear that they can do it, but there is one view over there that they can reclassify New York and Chicago, doing away with central reserve cities which have a twenty-six percent reserve, and lower that to - making it twenty percent.

MR. MURPHY: Yes. It might not be legal, but there is no one that could bring suit against them.

MR. HAAS: I think it looks a little funny.

MR. MURPHY: It looks funny. It doesn't seem to be what the law contemplates.

H.M.JR: I don't want to go through the same situation I did on the last financing. There is no excuse for having the thing as tight as it was in New York, absolutely no excuse. What do you think, Walter Stewart?

MR. STEWART: Well, there seem to be two human elements there. One is Eccles and the other is the Guaranty Trust Company. Under either method, whether you have changed excess reserves by changing classification or changing the minimum or buying in the open market, any single bank can, if it wants to, run a corner. If neither one guarantees against it, I should have thought that what you wanted was a combination of the two in some form which did deal with the New York situation and with the Board both, but how you could get more than the understanding, agreement, I don't know. It is all you have got. There is no other way that I know of, except for administering the funds of a reserve system without agreement with the Federal Reserve Board on open market operations or somebody, so, I don't see how you escape it.

- 21 -

H.M.JR: Well, I am willing to modify my position this much. If you people could work out a formula of minimum excess reserves for the country, which is no lower than the present one, and one for New York, which is a more liberal one, because it is too tight, see. The last one was too tight, Dan. I would want it at least twenty-five percent more than it was in the last financing. In other words, I want around - oh, I might guess a billion and a half.

MR. BELL: How much did they lose the last time in reserve requirements?

MR. MURPHY: I have got it here.

MR. BELL: A billion dollars, wasn't it? No, about six hundred million.

MR. MURPHY: The last week before the increase, excess in New York was one three forty-five, and the week after the increase it was seven seventy-five, so it went down about six hundred million.

MR. HAAS: And now it is up nearly a billion.

MR. MURPHY: Nine forty four the last week.

H.M.JR: Well, when the financing was a billion one and there was three hundred million in one bank which was frozen, it brought it down to eight hundred million, you see. So, there was only eight hundred million affected reserves--

MR. HAAS: A billion and a half is a good round figure.

H.M.JR: .which was too little. They had me by the throat. I would like - I think you ought to have a billion and a half in New York. Now, I don't - it is really no concern of mine, if they would guarantee to maintain a billion and a half in New York, and how much for the country?

MR. BELL: A billion three.

- 22 -

MR. MURPHY: There is three point two there now. The last week in which you had a bigger one in New York was October twenty-second. Things looked pretty well back there. I say the last week at which they had a billion and a half in New York was October twenty-seven. I would rather like to be back there.

H.M.JR: Yes. And how much for the country then?

MR. MURPHY: Four six.

H.M.JR: How much is it now?

MR. MURPHY: For the country it is three two, and New York--

H.M.JR: We had four billion for the country?

MR. MURPHY: Four, six fifty-five for the country on October second.

H.M.JR: I wouldn't want to guess for the country. But a liberal amount for the country and a billion and a half minimum in New York, and they would maintain it there.

MR. VINER: You say four for the country and one point five for New York would mean an easy money market?

MR. STEWART: If you deal with New York--

MR. BELL: New York has had something under a third of the reserves.

MR. HAAS: A little over three outside New York would be all right, I think.

H.M.JR: Well, around four, a minimum of four or four and a half for the country and a billion and a half for New York, and they agree to maintain it there.

MR. HAAS: I should think outside of New York, four would be plenty, and then a billion and a half in New York and you would have five five.

- 28 -

MR. VINER: No, four is over-all.

MR. HAAS: Over-all? Oh, that is too tight.

MR. VINER: Do you think it is too tight?

MR. HAAS: Yes.

H.M.JR: Well, you would want to think about it.

MR. HAAS: Yes.

MR. BELL: They will argue that it isn't tight now with three to three and a half.

H.M.JR: Well, it is.

MR. HAAS: That is over-all.

H.M.JR: And they have no reason not to do it.

MR. MURPHY: Of course, it is the rise in short money rates which permits a bank like Guaranty to hoard three hundred million. If pickings were thinner, they would have to invest their three hundred million in order to make their dividend. That is the truth. It is interesting to note that Devine, in his annual review of the bond market, gives as factors that he thinks will keep the bond market strong the fact that increased taxes and low money rates will force the banks to increase their portfolios in order to maintain earnings.

MR. BELL: Well, that is true.

H.M.JR: Well, let me put it this way--

MR. BELL: It was demonstrated last week.

H.M.JR: ... this and taxes are the most important things I have got. Why don't we continue this tomorrow and let this other thing go, this Dean Acheson thing? We will let that go tomorrow and let's continue this discussion.

- 24 -

MR. BELL: You mean you won't have the big conference on Lend-Lease?

H.M.JR: No, I won't have it at all. I want to keep on this subject. Now, could you, Dan - it is ten minutes of four - could you sound out the Fed on this, or do you want to first make up your mind what you want before you see me again?

MR. BELL: Well, I would like for you to get the complete picture first, because we have spent hours with the Federal, and had a conference with them, you remember, a week ago Friday, all day.

H.M.JR: But, supposing you just called up Eccles and said, "Look, we have been talking with Mr. Morgenthau and we have got to this point. How would you feel about guaranteeing a minimum of excess reserves for the country and for New York"?

MR. BELL: All right, I can do that.

H.M.JR: I mean, without naming any figures.

MR. STEWART: You can guess his answer, can't you?

MR. BELL: Oh, yes.

MR. STEWART: He would say, "I will keep the long-term rate at two and a half percent if the Secretary will say that is what he is for." That is the answer.

MR. BELL: Well, he would say that, I am sure, but to show you how they are thinking on this reserve situation they had the Advisory Council meeting last week, and they passed two resolutions. One was that it said the Federal Advisory Council believes that in principle, at least, reserve requirements should remain as stable as possible, and that changes in such requirements should not be made unless clearly required by the credit situation. The Council is of the opinion that there is no present need for a change in the reserve requirements.

- 25 -

H.M.JR: Well, to which I answer, nuts.

H.M.JR: I think they have anticipated some of our requests, and gotten resolutions on the record.

MR. VINER: Well, we don't care whether they do it by reserve requirements. Then, if the Council won't do it, we will say, "It is up to you to do it by open market operations."

H.M.JR: The Council has no authority. They are purely advisory.

MR. BELL: That is all.

H.M.JR: They are purely advisory. They meet four times a year, don't they?

MR. BELL: At least four.

H.M.JR: Well, Dan, what harm is there in calling up Eccles?

MR. BELL: None.

H.M.JR: I mean, you haven't got much to do the rest of the afternoon.

MR. BELL: That is right. (Laughter.) I will be free after six.

H.M.JR: And simply say, "We have been talking of going part way, and Mr. Morgenthau would like to know - the way he is leaning is, he would like a guarantee from the Open Market Committee that you people will keep the excess reserves of the country at a definite minimum, and the excess reserves for the City of New York at a definite minimum."

MR. BELL: You don't want to say those minimums yet?

H.M.JR: No, I think that these boys ought to work a little bit more. It is too important.

- 26 -

MR. BELL: The first question he is going to ask me is, "Are you willing to announce a program, agree upon a program of financing?"

H.M.JR: Well, we are working on it.

MR. BELL: And state the pattern of rates?

H.M.JR: You tell him I can't make up my mind. To me the excess reserve thing comes first.

MR. BELL: I will talk to him.

H.M.JR: Then, why don't we say we will meet again at ten thirty tomorrow morning?

MR. BELL: All right.

H.M.JR: We will keep at this tomorrow, because I haven't soaked this up yet.

MR. BELL: Well, this is a big problem. I think this is just as important as your financing, which you spent two or three days on.

H.M.JR: We will meet at ten thirty tomorrow, and we will just keep at this, but I can't go any further until I know that - will they do it. Don't you think, gentlemen, that is a good way, I mean to get them to guarantee that they will keep it at a minimum? And then if they want to go the way Murphy says, O.K., and if they want to do it some other way, O.K., as long as they give me a memorandum.

MR. BELL: We don't care how they do it.

H.M.JR: As long as they keep it at a minimum.

MR. BELL: That is right. If we get some agreement out on some minimum, that is what we would like to have.

MR. STEWART: Well, it makes a difference of two billion dollars in your securities. It is two billion dollars

that they wouldn't otherwise have if it is built up in reserve requirements, because they will be carrying two billion more under your calculations here.

MR. BELL: Well, we would prefer that they would do it in open market operations, but if they prefer the other, I don't think we would fuss with them a lot.

MR. STEWART: That is a large figure.

H.M.JR: You mean they would have to buy that much less.

MR. STEWART: They would buy that much more under an open market operation than they would under a change in the reserve requirements.

H.M.JR: And they wouldn't have to do it under the change in reserve?

MR. HAAS: No.

H.M.JR: So that would be an argument for my original case.

MR. STEWART: An argument for open market as against just changing reserve requirements.

H.M.JR: Why should they want more securities?

MR. STEWART: Well, I don't know whether they want more or not. There are some earnings in them, but from the standpoint of the Treasury, if it is an equal choice, I should have thought you might rather have them buy the securities than change the reserve requirements. It places two billion dollars in securities.

MR. VINER: Of course, there is this point. On the open market operations they can do them - they can dribble them on the market day after day. If they used the reserve requirement thing, they have to do some forecasting, and they may overdo it, and they may underdo it.

- 28 -

H.M.JR: I agree.

MR. VINER: ... so that if you get a guarantee and it is an absolute guarantee that on no day are excess reserves to be permitted to fall below four billion, that means they will have to use open market operations to a substantial extent because they can't - the other way is always a guess, always uncertain.

MR. MURPHY: It wouldn't look good to lower reserve requirements twice.

H.M.JR: But, also you agree with me that before I do anything about any rates or anything else I ought to have such an agreement?

MR. VINER: Yes, except I think it would be legitimate on their part to say, "No, we can't undertake to maintain these as minimum reserves without knowing what you are going to do."

MR. BELL: That is what they will say, but it is part--

MR. VINER: That is part of a program which would be jointly worked out that - would they be willing to make that one item in the program. I think that is the way to put it, not, are they willing now.

MR. BELL: That is the way they will want it if they agree to it.

MR. VINER: And I think they are right, don't you?

MR. BELL: Yes, I do.

H.M.JR: All right, we will do some more tomorrow.

Jack 3 explained  
by Mr. Murphy on 10  
4th

Table 1

Analysis of the Disequilibrium Implicit in the Estimated Flow of Goods and Services and the Estimated Application of Income to Various Uses

Fiscal Year 1943

(Based on a national income of \$115 billions and a rise in the cost of living of about 10% from December 1941)

(In billions of dollars)

Flow of Goods and Services	Application of Income made available (Under existing habit patterns and pressures)
<p>A. To be purchased by Government:</p> <p>1. Defense expenditures:</p> <p>a. Total..... 56.6</p> <p>b. Less: Prepayments, land and offshore, etc..... 2.5</p> <p>c. Net defense expenditure..... 54.1</p> <p>2. Other public expenditures:</p> <p>a. Federal..... 6.1</p> <p>b. State and local..... 7.8</p> <p>c. Total other public expenditure..... 13.9</p> <p>3. Total Government..... 68.0</p>	<p>A. Available for Government use:</p> <p>1. Assured - Taxes:</p> <p>a. Existing business taxes <math>\frac{1}{3}</math>..... 16.7</p> <p>b. Existing personal taxes..... 6.8</p> <p>c. New business and personal taxes <math>\frac{2}{3}</math>..... 7.0</p> <p>d. Total taxes..... 30.5</p> <p>2. Potential - For buying Government securities, directly or indirectly (Unabsorbed saving, depreciation and other allowances):</p> <p>a. Unabsorbed personal saving <math>\frac{3}{5}</math>..... 15.5</p> <p>b. Social security net accumulation..... 4.0</p> <p>c. Unabsorbed business saving <math>\frac{4}{5}</math>..... .3</p> <p>d. Reserves for existing taxes <math>\frac{1}{5}</math>..... 1.7</p> <p>e. Reserves for new taxes..... 0.5</p> <p>f. Unabsorbed depreciation and other allowances <math>\frac{1}{5}</math>..... 4.5</p> <p>g. Total..... 26.5</p> <p>3. Total income available for Government use..... 57.0</p>
<p>B. To be purchased by private persons:</p> <p>1. Private capital expenditures:</p> <p>a. Plant and equipment..... 5.5</p> <p>b. Inventories:</p> <p>(1) Increase in volume -.5</p> <p>(2) Increase in value.. 1.5</p> <p>(3) Total..... 1.0</p> <p>c. Foreign balance..... -.5</p> <p>d. Residential housing construction.. .5</p> <p>e. Total..... 6.5</p> <p>2. Consumption goods and services:</p> <p>a. Durables..... 3.5</p> <p>b. Non-durables and services..... 64.5</p> <p>c. Total..... 68.0</p> <p>3. Total private..... 74.5</p>	<p>B. Available for private use:</p> <p>1. Income absorbed by private capital expenditures:</p> <p>a. Absorbed depreciation and other allowances <math>\frac{1}{5}</math>..... 4.5</p> <p>b. Absorbed business saving <math>\frac{4}{5}</math>..... 1.5</p> <p>c. Absorbed personal saving <math>\frac{3}{5}</math>..... .5</p> <p>d. Total..... 6.5</p> <p>2. Income available for consumer spending..... 79.0</p> <p>3. Total income available for private use..... 85.5</p>
<p>C. National gross product plus inventory revaluations..... 142.5</p>	<p>C. National gross product plus inventory revaluations..... 142.5</p>

February 4, 1942

Not included in national income concept used by Department of Commerce.

In estimating personal and business saving, the revenue to be obtained from new taxes is arbitrarily divided 1/3 each from (1) corporation income and excess profits taxes, (2) excise taxes, and (3) individual income, estate and gift taxes.

Total personal saving, exclusive of social security net accumulation, is estimated at \$16.0 billions.

Total business saving is estimated at \$1.5 billions.

Total depreciation and other allowances is estimated at \$9.0 billions.

Notes: There is a disequilibrium implicit in the above figures, amounting to \$11.0 billions, resulting from the discrepancy between the goods and services the Government requires and the income available for Government use. This disequilibrium may be solved by transferring income now estimated to be available for private use so that it becomes available for Government use. This may be accomplished by increasing taxes, or by increasing saving, either by voluntary or forced means, or by the use of direct price and rationing controls. Unless the disequilibrium is solved by changing the application of incomes, however, it will solve itself by changing the flow of goods and services as a result of price rises which will occur in addition to the 10 percent rise in the cost of living allowed for. This will in turn cause Government expenditures to increase in order to purchase the same volume of goods and services and so further complicate the problem of raising funds to pay for the expenditures.

Table II

Estimated Sources of Funds to Finance Budgetary Deficit and Federal Agencies Financed with Treasury Funds  
Fiscal year 1943

(in billions of dollars)

Sources of funds	Distribution between types of Government securities											
	Total amount	New Savings bonds Series H. F. and G		New security to absorb long-term acc- market funds		Special issues to trust funds	Marketable securities				Subtotal for marketable securities	
		to absorb deferred business expen- ditures	to absorb long-term acc- market funds	Tax notes	Sold to individ- uals		Sold to corporations other than banks and insurance companies	Sold to insurance companies	Sold to banks 1/			
I. Current savings and accumulations estimated on the basis of existing habit patterns and pressures (based on a national income of \$115 billions and a rise in the cost of living of about 10% from December 1941):												
1. Personal saving.....	15.5	7.0	1.1	.9	.2	-	.2	.2	1.9	4.0	6.3	
2. Social security trust funds....	4.0	-	-	-	-	4.0	-	-	-	-	-	
3. Business saving.....	.3	-	.1	.1	-	-	-	-	-	.1	.1	
4. Corporate tax accruals in excess of tax payments:												
(a) Existing taxes.....	1.7	-	.2	-	.4	-	-	-	-	1.1	1.1	
(b) New taxes.....	.5	-	-	-	.2	-	-	-	-	.3	.3	
5. Excess of bookkeeping charges for depreciation and similar items over actual outlays therefor.....	4.5	.2	1.2	.2	-	-	-	.2	-	2.7	2.9	
6. Net surplus of State and local revenues over expenditures.....	-	-	-	-	-	-	-	-	-	-	-	
7. Total from current savings and accumulations.....	26.5	7.2	2.6	1.2	.8	4.0	.2	.4	1.9	8.2	10.7	
II. Funds available only at the cost of an additional price rise:												
1. Funds derived by converting old idle balances into active balances through purchase of Government securities:												
(a) By individuals.....	3.0	1.5	.2	1.2	.1	-	-	-	-	-	-	
(b) By corporations.....	1.5	-	1.0	.2	.3	-	-	-	-	-	-	
(c) Total from old idle balances.....	4.5	1.5	1.2	1.4	.4	-	-	-	-	-	-	
2. Residual balance which will have to be borrowed from banks..	8.8	-	-	-	-	-	-	-	-	8.8	8.8	
3. Total under Group II.....	13.3	1.5	1.2	1.4	.4	-	-	-	-	8.8	8.8	
III. Total borrowing according to the budget (but this will have to be increased as a result of prices rising even higher than allowed for if borrowing listed under Group II is used).....	39.8	8.7	3.8	2.6	1.2	4.0	.2	.4	1.9	17.0	19.5	

1/ Includes securities sold to Federal Reserve Banks.

March 5, 1942

Estimated Means of Financing the Deficit - Monthly, March 1942 through June 1943  
(In billions of dollars)

STRICTLY CONFIDENTIAL

	1942												1943				Total
	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	
I. Amount to be financed:																	
A. Net budget receipts.....	3.0	.5	.5	2.4	.7	.8	2.9	1.0	1.0	2.8	.9	1.3	5.2	1.0	1.0	4.9	29.9
B. Budget expenditures:																	
1. Defense.....	2.5	2.8	3.0	3.2	3.4	3.5	3.7	3.9	4.1	4.3	4.5	4.7	4.9	5.1	5.3	5.4	64.3
2. Non-defense.....	.7	.6	.4	.7	.5	.4	.5	.5	.4	.7	.5	.4	.6	.5	.4	.7	8.5
3. Total.....	3.2	3.4	3.4	3.9	3.9	3.9	4.2	4.4	4.5	5.0	5.0	5.1	5.5	5.6	5.7	6.1	72.8
C. Set budget deficit.....	.2	2.9	2.9	1.5	3.2	3.1	1.3	3.4	3.5	2.2	4.1	3.8	.3	4.6	4.7	1.2	42.9
D. Set outlays of Government corporations.....	.3	.3	.4	.4	.3	.3	.3	.3	.3	.2	.2	.2	.2	.2	.2	.2	4.3
E. Total to be financed.....	.5	3.2	3.3	1.9	3.5	3.4	1.6	3.7	3.8	2.4	4.3	4.0	.5	4.8	4.9	1.4	47.2
II. Means of financing:																	
A. Securities sold to Government trust funds.....	.2	-	.2	.3	.2	.5	.3	.1	.6	.4	.1	.6	.3	.2	1.0	.5	5.5
B. Non-marketable securities:																	
1. Tax notes.....	.6	.3	.3	.5	.4	.4	.5	.4	.4	.5	.5	.4	.6	.4	.4	.5	.7
2. Savings bonds.....	.5	.7	.6	.5	.6	.6	.5	.6	.7	.8	1.2	.8	.6	.8	.8	.7	11.0
3. Proposed new short-term security.....	-	-	.8	.4	.3	.2	.2	.2	.2	.3	.3	.3	.3	.3	.3	.3	4.4
4. Proposed new long-term security.....	-	-	.7	.4	.3	.2	.2	.2	.2	.2	.1	.1	.1	.1	.1	.1	3.0
5. Total non-marketable securities.....	.1	1.0	2.4	.8	1.6	1.4	.4	1.4	1.5	.8	2.1	1.6	.4	1.6	1.6	.6	19.1
C. Marketable securities:																	
1. Total marketable securities.....	.4	2.2	.7	.8	1.7	1.5	.9	2.2	1.7	1.2	2.1	1.8	.2	3.0	2.5	.3	22.6
2. Marketable securities sold to investors other than commercial banks and Federal Reserve Banks.....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	3.2
3. Marketable securities sold to commercial banks and Federal Reserve Banks:																	
a. Total.....	.2	2.0	.5	.6	1.5	1.3	.7	2.0	1.5	1.0	1.9	1.6	.4	2.8	2.1	.1	19.4
b. Sold to non-member banks.....	-	.1	-	-	.1	.1	-	.2	.1	.1	.1	.1	-	.2	.2	-	1.3
c. Sold to member banks offsetting an equal reduction in bank loans.....	-	-	.1	.2	.3	.3	.3	.3	.3	.3	.4	.4	.4	.4	.3	.3	4.3
d. Sold to Federal Reserve Banks and member banks thereby increasing their net loans and investments:																	
(1) Monthly.....	.2	1.9	.4	.4	1.1	.9	.4	1.5	1.1	.6	1.4	1.1	.8	2.2	1.6	.2	13.8
(2) Cumulative.....	.2	2.1	2.5	2.9	4.0	4.9	5.3	6.8	7.9	8.5	9.9	11.0	10.2	12.4	14.0	13.8	13.8
III. Purchases of Government securities by the Federal Reserve Banks required if excess reserves are to be held unchanged (except for changes caused by factors other than member bank purchases of Government securities and decreases in loans outstanding):																	
A. Purchases by member banks thereby increasing their net loans and investments:																	
1. Monthly.....	.2	1.6	.3	.4	.9	.8	.3	1.3	.9	.5	1.2	.5	.7	1.3	1.4	.2	11.7
2. Cumulative.....	.2	1.8	2.1	2.5	3.4	4.2	4.5	5.8	6.7	7.2	8.4	9.3	8.6	10.5	11.9	11.7	11.7
B. Purchases by Federal Reserve Banks:																	
1. Monthly.....	-	.3	.1	-	.2	.1	.1	.2	.2	.1	.2	.2	.1	.3	.2	-	2.1
2. Cumulative.....	-	.3	.4	.4	.6	.7	.8	1.0	1.2	1.3	1.5	1.7	1.6	1.9	2.1	2.1	2.1

March 7, 1942.

March 9, 1942  
3:13 p.m.

HMJr: Hello.

Operator: Hello, Mr. Budge.

HMJr: Hello.

Operator: Go ahead, please.

Alexander  
Budge: Hello.

HMJr: Hello.

B: Good morning, sir.

HMJr: Hello, Mr. Budge.

B: Good morn - good afternoon, rather.

HMJr: It's all right.

B: We've been hoping that it would be possible to have some action on the income tax relief for certain cases that will come up during the course of the next few months.

HMJr: Yes.

B: This with particular reference to the rate of interest which has a very definite effect in an area such as ours from the standpoint of morale.

HMJr: Yes.

B: Now, I'm not talking about it from the corporate angle or my own situation at all.

HMJr: I understand.

B: We have, for instance, in this company, we have about three million and a half due, which is all reserved for.

HMJr: Yeah.

- 2 -

- B: But sometime ago Mr. Burlew of Interior and Mr. John Sullivan of Treasury had some discussions on this subject.
- HMJr: Yeah.
- B: The thought was to put the Internal Revenue Department in a position where they could review each case.....
- HMJr: Yes.
- B: .....and might have some discretionary power to postpone the payment and also either waive the interest or if interest was to be charged it would be at a nominal rate,....
- HMJr: Yeah.
- B: .....the thought being to avoid discouragement, which we have a little of around here now, as you might imagine.
- HMJr: Yes.
- B: No blanket action would be necessary. Now, in this connection, I thought there ought to be a source of - possibly a loaning agency.
- HMJr: Yes.
- B: It seems to me that they are not in a position to make loans for the payment of taxes except under rather restricted conditions until after further legislation.
- HMJr: Yeah.
- B: It is deemed that you'll appreciate that their low collateral is abnormally depressed on the stock market.
- HMJr: Yes.
- B: It would seem that if a corporation could be run by Treasury that could loan at a nominal

- 3 -

rate of interest on a collateral of Hawaiian securities, based let's say on eighty per cent of the average market for two or three years, with some respect for low evaluation will - such a corporation if loaning only payment of taxes, would be a definite relief and would straighten out the tax situation in many cases.

In other words, now the collateral is so depressed that the normal business will be unable to make plans that will be satisfactory.

HMJr: Well, now, Mr. Budge - hello.

B: Yes.

HMJr: Can you wait just one second. I just sent for Mr. Sullivan. Let me just ask him a question, will you?

B: What did you say?

HMJr: Hello.

B: Yes.

HMJr: Just wait one minute. Can you hold on one minute?

B: Yes.

HMJr: Just wait one minute.

B: Yes.

HMJr: Hello.

B: Yes.

HMJr: Mr. Budge, I'll talk this thing over with Mr. Sullivan - hello - and I'll get you off a cable the first thing in the morning.

B: Yes. I don't think, Mr. Morgenthau, it isn't a matter of rush as much as it is to have someone think of it definitely in point not of the dollars to be waived - lost in any way, but

- 4 -

towards the number of people that will be affected in the smaller brackets; and it seems to me an orderly review of the whole question would probably enable some legislation that would not in any way be costly to the Government but would be of very definite help to a big section of our people.

HMJr: Well, naturally, we're all here interested, and I haven't got into it myself.....

B: Yes.

HMJr: .....but I will talk with Mr. Sullivan.....

B: Thank you very much.

HMJr: .....and some time tomorrow we'll get you off a cable and tell you what we can or cannot do.

B: Fine.

HMJr: Now, Mr. Budge, what's your address in Honolulu?

B: Just Alexander Budge, Honolulu, will get me all right.

HMJr: What will?

B: Alex Budge.

HMJr: I don't hear you.

B: Alex. A-l-e-x.

HMJr: Oh, Alex Budge.

B: Yes. You might say Merchant Street. I guess they have to have an address on it.

HMJr: What street?

B: Merchant.

HMJr: I don't get that.

B: Merchand. M-e-r.....

- 5 -

HMJr: Merchant. Yeah, Merchant Street.

B: Yeah.

HMJr: Well, we'll get it off to you sometime tomorrow.

B: Thank you very much.

HMJr: I don't know what we can do, but Mr. Sullivan says that the delegate King has been in touch with him. ~~-----~~

B: Yes, I know that he had been.

HMJr: Yeah.

B: I thought it had been more or less - they were losing interest in it and it seemed.....

HMJr: No, no, we're not losing interest.

B: Fine. Well, thank you very much.

HMJr: All right. We'll see what we can do.

B: Earl wanted to be remembered to you.

HMJr: Thank you. Remember me to the General.

B: All right.

HMJr: Good-bye.

B: Good-bye.

3/9/42

85

This material was used by HM, Jr at his press conference today together with material on average family which is attached to reading copy of Tax Statement of 3/3. It was HM, Jr's answer to New York Board of Trade.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau  
FROM Mr. Kuhn

A single person earning \$750 a year pays a total of \$130 in Federal, state and local taxes of all kinds. That amounts to 17.3% of his income. It means that he would have to work more than eight weeks just to pay his taxes.

A married person with no dependents, earning \$1500 a year, pays an estimated total of \$250 a year in Federal, state and local taxes of all kinds. This is 16.7% of his income. Here again he must work more than eight weeks in order to pay his annual tax bill.

These estimates are based on Federal taxes for the fiscal year 1942, and state and local taxes for the year 1941.

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	250	17.3	16.7

Treasury Department, Division of Tax Research

<sup>1/</sup> On the basis of estimated fiscal year 1942 Federal and estimated fiscal year 1941 State and local tax collections.

MAR 10 1942

**SAYS TAX EXEMPTS  
'CAN'T STAND MORE'**

**Morgenthau Opposes Lowering  
of Limits, Asserts Poor Pay  
Heavily in Hidden Levies**

**AGAINST A SALES IMPOST**

**But Ways and Means Majority  
Favors One—New York Trade  
Board Assails Exemptions**

By HENRY N. DORRIS

Special to The New York Times.

WASHINGTON, March 9.—The probability of a fight to the finish between the Administration and Congress over the question of subjecting persons now exempt under the income tax laws to direct levies or a general sales tax was heightened by two developments today.

The first was a statement by Secretary Morgenthau, at his press conference, reiterating the Administration's stand against either removing exemptions on income taxes or imposing a general sales tax. Mr. Morgenthau read from an analysis completed recently by Treasury Department experts allowing that persons who did not earn enough to be subject to the income tax were already paying heavily in "hidden" levies, and commented that "this group can't stand more taxes."

The second development was the revelation, through an unofficial poll of the House Ways and Means Committee, that a majority now favored a sales tax in some form—either at the manufacturing or the retail level—and that this group reached this conclusion through a belief that all wage-earners should contribute toward the war expenses.

A wide gap has become the cleavage between the Treasury and the Ways and Means Committee over the tax question that it was said that Mr. Morgenthau contemplates another appearance before the committee to make an even stronger plea that the group now exempt be left free from direct taxes.

To explain his attitude Mr. Morgenthau read today from the Treasury study, a study which he said indicated that a single person earning \$750 a year (the present lower limit on taxable salaries) paid \$130 in Federal, State and local taxes of all kinds. This was 17 3-10 per cent of his income and required eight weeks' work to earn. A married man with no dependents and earning \$1,500 paid \$250, which was 16 7-10 per cent, or the equivalent of eight weeks' labor.

"After seeing these figures," said Mr. Morgenthau, "I came to the conclusion that we would not be justified in lowering exemptions or imposing a general sales tax. Families and individuals below the exemption level are making a fair-enough contribution at this time to the government."

"Until we have exhausted all other sources of revenue and closed all loopholes we should not add any burdens to this group."

The Secretary said this group did not have enough purchasing power to cause inflation.

The Ways and Means Committee, continuing its hearing on the proposal to raise \$7,610,000,000 in new revenue, heard M. L. Seidman, chairman of the taxation committee of the New York Board of Trade, urge that income tax exemptions be removed.

Because of these exemptions, Mr. Seidman said, three-quarters of American families, about half the number of wage-earners, and more than half the national income are not subject to direct taxes. He would not lift exemptions for air-tax purposes, but would substitute a flat 10 per cent normal tax for the 4 per cent now levied.

A general sales tax was opposed by Mr. Seidman, as was the Treasury's proposal to require joint income tax returns for married couples. Mr. Seidman also held that the proposed excess-profit taxes for corporations were too high.

March 9, 1942

4:38 p.m.

Leon  
Henderson: Hello, Henry.

HMJr: Leon.

H: Yeah.

HMJr: How are you?

H: Pretty good.

HMJr: Leon, I just had a press conference, and they went after me on this question of lowering the exemptions of \$1500 and \$750.

H: Uh huh.

HMJr: Well, we have our own figures on the amount of taxes which this group use which we gave them. Then it came on to these tables which we got from your Hildegard *Kneibauer*

H: Yeah.

HMJr: .....which shows that until you get above twelve hundred and fifty dollars, an American family doesn't save anything.

H: Uh huh.

HMJr: And - oh, before I went on the Hill, Roy Blough got from somebody in their office permission to use those figures. Hello.

H: Yes.

HMJr: And I just wanted to tell you I told them where I got them from.

H: Uh huh.

HMJr: And if they come over there and so forth and so on, I hope that you'll hold up my hand.

H: All right. Have you got a - when you get your

- 2 -

transcript, this part, will you send it over, so that we'll just hit it right on the nose right away.

HMJr: I'll have that done right away - it ought to maybe take about an hour does it take to do it?

H: All right. We won't say anything tonight.

HMJr: Well, I'll get it over there, and - but, of course, from our standpoint, it's very important and your people have been very helpful but I wanted to let you know that I went to town - I did the same thing once before, and there wasn't a single paper carried it when I testified. I gave them the same figures when I went up Tuesday, and Paul is sitting here, and he says he gave the same figures, and no newspaper carried it in the United States, so I've tried it once more, and it's pretty, I think, sinister the fact that there isn't a newspaper that carried those.

H: (Laughs) They'll probably carry it this time.

HMJr: And you'll see that I told them that the people that wanted to lower them are the people that don't want to pay the taxes themselves.

H: Uh huh.

HMJr: But I'll get you a transcript and get it over; and if there's anything in there that you can't put your name to, before you throw me down, give me a call.

H: Yeah. I will.

HMJr: Thank you.

H: All right, Henry.

HMJr: Thank you.

TREASURY DEPARTMENT

*Final*

91

INTER OFFICE COMMUNICATION

DATE March 9, 1942

TO Mrs. Klotz  
FROM Mr. Morgenthau

Please be sure to get the clipping from Sunday's PM on Arthur Krock and Wayne Chatfield Taylor. *attached -*

Please look up Wayne Chatfield Taylor's letter of resignation from the Treasury. I would like to see it. *(See diary book to which this memo is attached)*

# Vichy Finds Pal in Krock

Times' Bureau Chief Only  
Correspondent to Detect 'Doubt'  
Over RAF's Paris Raid

By I. F. STONE  
*PM's Column*

WASHINGTON, Mar. 7.—The only newspaperman to discover that RAF bombings of Paris had created "doubt and dissent" in the U. S. A. was Arthur Krock, head of the New York Times bureau in Washington.

The only newspaperman among the guests at the first formal dinner given here by the Vichy French Embassy Feb. 27 was Arthur Krock.

Less interventionist than his paper, persistently anti-New Deal, Krock frequently sees Vichy's ambassador, Gaston Henry Hays.

"Doubt and dissent," Krock discovered in his Times editorial-page column of Mar. 6, seem to have been invoked by the RAF bombings of the industrial environs of Paris.

Krock himself concluded by saying that total war . . . calls for total war and isolating "if the United Nations spare any war industrial area, the enemy, as he has proved, will not."

But on his way to those conclusions, the chief correspondent of the Times made some "exclusive" discoveries:

¶ "The degree of American disapproval is worth noting. . . ."

¶ "In the United States signs were to be discerned among strong supporters of the anti-Axis war of regret mingled with disapproval. . . ."

¶ "Suggestions that the bombing might destroy the immobilizing effects on French assistance to Germany of this government's policy toward Vichy."

## A Job for Kennedy

Source of these scoops may be indicated by the list of other guests at the socially-minded Vichy Embassy.

Of the three guests from the State Department, only one prominently identified with the belief that American economic aid to Vichy

France has had "immobilizing effects on French assistance to Germany."

One is James Clement Durr, political adviser on European affairs, who was leader of the pro-Franco bloc in the Department during the Spanish Civil War. The other is a minor bureaucrat, Samuel Reber, in charge of "the French desk" in the division of European affairs. To Reber is attributed authorship of the original draft of the famous "so-called Free French Navy" statement issued by the Department on Christmas Day in protest against seizure of St. Pierre and Miquelon by the Free French.

The other Department official present was Wallace Murray, in charge of the Division of Near Eastern Affairs.

Only other American officials present at the dinner were Jesse Jones's righthand man, Under Secretary of Commerce Wayne Chatfield-Taylor, and Colonel Bentley Mott, former U. S. military attaché at Vichy.

Krock, with isolationist Boake Carter, and the New York Enquirer (whose publisher, Hearst-pal William Griffin, is under subpoena by the Federal Grand Jury investigating Nazi propaganda), is reported in this week's issue of the Nation as carrying on a minor campaign to create a wartime job for Joseph P. Kennedy.

Kennedy, as ambassador to Great Britain, was among the Munich-minded men.



Arthur Krock of the New York Times who discovered that the bombing of Paris had created "doubt and dissent" in the U. S. A. Photo by Wide World

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 9, 1942

TO Mrs. Klotz  
FROM Mr. Morgenthau

Will you invite General Marshall to have lunch with me on Thursday, please.

*Marshall accepted -*

March 9, 1942

Harold Graves

Secretary Morgenthau

The meeting which we had scheduled for Wednesday for your staff, I would like to have at 9:15 on Thursday.

O. K. -

March 9, 1942

Dear Randolph:

Many thanks for sending me that quotation from the President's recent radio talk. I agree with you that it is a fine statement and that it should be used more widely. It expresses the present situation exactly.

Sincerely,

(Signed) Henry

Mr. W. Randolph Burgess,  
55 Wall Street,  
New York, N. Y.

FK/cgk

*File N.M.C.  
Copies to Thompson*

○ "NEVER BEFORE HAVE WE HAD  
SO LITTLE TIME  
IN WHICH TO DO SO MUCH".

President Roosevelt.

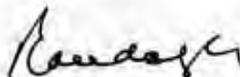
W. RANDOLPH BURGESS  
55 WALL STREET  
NEW YORK

March 7, 1942

Dear Henry:

There was one line in the President's recent address which deserves wider use than it has received. A nephew of mine, working for International Business Machines, picked it up and has circulated it in the form of the attached card. I quoted it the other day in a speech and have been surprised that more people have not picked it up.

Sincerely yours,



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

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 9, 1942

TO Mrs. Klotz  
FROM Mr. Morgenthau

Please have somebody go through my files. Sometime during the last two years we had a meeting in my office at which Mr. Batt was present. I have a vague recollection that he was arguing we had enough steel production. I know that he and I got into quite an argument. I would like to see what it was about. Thank you. *(This is being done)*

*W. White House.*

*Enched -*



CONGRESS OF INDUSTRIAL ORGANIZATIONS  
1106 CONNECTICUT AVENUE, NORTHWEST  
WASHINGTON, D. C.

TELEPHONE DISTRICT 3582

March 9, 1942

Office of  
THE PRESIDENT

The Secretary of the Treasury  
Washington, D. C.

Dear Mr. Secretary:

I refer to your letter of January 28, with regard to your visit to the Detroit area.

I have held your letter so that I might send you the enclosed copy of our paper, "Steel Labor". You will note the picture on Page 8.

I am pleased to note the reaction to the work you are doing in promoting the sale of stamps and bonds. You may be assured that anything we can do to assist in this great work will be done.

With every good wish, I am

Sincerely yours,

President, Congress of Industrial  
Organizations

# STEEL LABOR

THE VOICE OF THE STEEL WORKERS ORGANIZING COMMITTEE—C. I. O.

Vol. VII

Indianapolis, Ind., February 27, 1942

No. 2

## SWOC ASKS VOTE AT U. S. STEEL PLANTS; UNION SECURITY, \$1 RAISE DEMANDS IN 'LITTLE STEEL' GO TO WAR LABOR BOARD

### SWOC REVEALS PLAN TO BOOST STEEL OUTPUT

Nation Using 2,000,000 Tons Yearly by Alleged Scrap Shortage

The nation is using more than 2,000,000 tons of steel annually in a tremendous increase of its steel output. It is a "shortage" of scrap steel that is driving prices up and which is making it difficult to drive prices down by an important step in the steel industry to prevent a sharp, further decrease of the steel price.

Walter P. Murray, SWOC secretary, announced in a letter to the National War Labor Board, filed at the War Production Board, failure of the industry to utilize the maximum capacity of its steel-making capacity is the cause of the "scrap shortage," said Mr. Murray. "Between there is no high percentage of 100 percent steel output. On the contrary, scrap is increasing. It is up into the open and scrap is being used for other purposes. It is not being used for the production program but is being used for other purposes."

1,800,000 tons of steel would be used in 1941. In 1942, 2,000,000 tons of steel would be used. (Continued on Page 3)

### 15 Largest Steel Firms Report \$28,497,000 Profit Increase In 1941—An Average Gain of 11.4 Per Cent Despite Wage Raise Forced by SWOC Last April

No. profits of more than \$278,412,000 were announced by 15 of the largest steel companies in the United States during 1941.

This represents an increase in profits of \$28,497,000 over 1940.

The overall increase in net profits for the 15 steel firms amounts to 11.4 per cent, despite the general wage increase granted in April, 1941. These firms comprise 85 per cent of the steel-making capacity of the nation.

At the same rate of increase profits for 1942 would skyrocket to more

than \$300,000,000, but the present trend indicates that this figure will be increased to a far greater figure.

U. S. Steel Corp. showed a net increase in profits over 1940 of some \$73,948,000. Its profits for 1940 were \$102,181,000 and in 1941 this figure was boosted to \$176,129,000. In 1942 the corporation's profit was \$173,950,000.

#### War Orders Four In

Bethlehem Steel Corp.'s 1941 profit was \$18,447,000. Republic Steel showed a 1941 profit of \$24,738,000, an increase of \$2,825,000 over 1940.

Profits of Youngstown Steel & Tube Co. were \$3,209,000 more in 1941 than in 1940. In 1941 Sheet & Tube profits were \$15,124,000.

Inland Steel's profits in 1941 were \$14,844,000 and in 1940 the profits were \$14,450,000.

The profit increase in 1940 over 1939 was 100 per cent.

War contracts in 1941 will undoubtedly net profits the highest in the industry's history.

Lafayette Steel Co. showed the largest percentage increase in profits. In 1940 the company showed \$709,000, whereas in 1941 its profits totaled up to \$8,100,000.

Profits of Ruston Iron & Steel Corp. almost doubled—from \$1,275,000 in 1940 to \$2,312,000 last year.

### SWOC Gives \$14,000 to FDR Birthday Fund

David J. McDonald, SWOC secretary, announced that the SWOC national organization and its local unions throughout the nation have contributed a total of more than \$14,000 to the 1942 campaign of the National Foundation for Infantile Paralysis.

The SWOC contribution this year set a new record for the organization. The drive to stamp out infantile paralysis is held in conjunction with celebration of President Roosevelt's birthday each year.

## STEEL INDUSTRY PROFITS

Financial Statements of Fifteen Leading Steel Firms Show How Profits Climb

Profits of 15 principal steel firms in the United States, representing 85 per cent of the steel-making capacity of the nation, follow for the years 1940 and 1941:

	Year 1941	Year 1940
United States Steel Corporation.....	\$116,010,000	\$102,181,000
Bethlehem Steel Corporation.....	31,457,000	48,677,000
Republic Steel Corporation.....	24,738,000	24,113,000
Jones & Laughlin Steel Corporation.....	16,274,000	10,277,000
National Steel Corporation.....	17,402,000	15,600,000
Youngstown Sheet & Tube Company.....	18,124,000	10,845,000
Inland Steel Company.....	14,844,000	14,450,000
American Rolling Mill Company.....	11,600,000	7,832,000
Washington Steel Corporation.....	5,508,000	5,465,000
Crescent Steel Company of America.....	7,439,000	6,250,000
Allegheny-Ludlow Steel Corporation.....	5,082,000	6,729,000
Lafayette Steel Company.....	8,100,000	709,000
Consolidated Steel Corporation.....	1,225,000	778,000
Keystone Steel & Wire Corporation.....	1,815,000	1,250,000
Ruston Iron & Steel Corporation.....	2,312,000	1,275,000
<b>Totals.....</b>	<b>\$278,412,000</b>	<b>\$249,915,000</b>

These net profits represent an overall increase between 1940 and 1941, despite the general increase granted April 1, 1941, of about 11.4 per cent.

The above companies have a total 85 per cent of the steel-making capacity of the country.

### 'BIG STEEL' PACT TO BE REOPENED FOR PAY RAISES

Government Board Enters 'Little Steel' Picture in Break Deadlock

The Steel Workers Organizing Committee will seek labor board decisions at all subsidiaries of the United States Steel Corporation, Philip Murray, SWOC chairman, announced. The deal will be some 250,000 employees.

The purpose of the elections is to establish the union as the exclusive bargaining agent. Existing contracts with U. S. Steel subsidiaries recognize the SWOC as its bargaining agent.

U. S. Steel subsidiaries include Carnegie-Illinois, Inland, American Sheet & Wire, National Tube, American Bridge, Columbia Steel, Tennessee Coal, Iron & Railroad, several smaller subsidiaries and iron ore mines.

#### Hope to Cut Delay

No deals have been actually worked out regarding the elections, but an effort will be made to have them on a consent basis that will have the companies agree to steel elections, thereby eliminating protracted labor board hearings.

This action was directed at a meeting of all SWOC officials and the presidents of all U. S. Steel local unions in Washington recently.

Mr. Murray also said the SWOC will be compelled to supercede contracts with U. S. Steel at a later date to bring about the same objectives as in the "Little Steel" case may before the War Labor Board—wage increases and union security.

Negotiations with the "Little Steel" companies—Bethlehem, Republic, Youngstown Sheet & Tube and Inland—have since the last year for SWOC's demand for a 40-cent wage increase and union security. All four companies have resisted to the War Labor Board.

The War Labor Board panel is forced to resolve the industry by composition of Richard Goodwin, chief United Auto Workers representative before the War Labor Board, and Philip Murray, representing the industry, and Arthur Henry, chairman of the panel.

#### 'Big Steel' First to Sign

U. S. Steel was the first company to sign a contract with the SWOC on March 10, 1941. The contract was renewed the following year and a new contract was signed last year with a modified wage increase.

Last April the union proposed the contract but brought about a 30-cent-per-hour wage increase. Higher wage changes have also been made in the contract, but the negotiation

(Continued on Page 3)

### SWOC Awarded Raise At American Can Co.

Washington, D. C., Feb. 27.—The National War Labor Board announced an agreement had been reached settling all issues except union security, including between the American Can Co., Chicago, and the Steel Workers Organizing Committee. The union of union security will be submitted to the full board for decision.

The agreement calls for a 15 cent an hour wage increase, of which 13 cents will be made retroactive to September 1, 1941, at which time the company had granted a 10-cent advance increase in its other plants and involved in these negotiations. This increase will affect the two plants in Chicago involved in the dispute.

The agreement was reached after four days of hearings before a mediation panel composed of Walter P. Murray, Philip Murray and James W. Carey. The dispute, which involves 2,800 workers, was over the SWOC's demands for wage increases, a union security clause, vacations, arbitration and seniority.

# \$500,000 WON IN AMERICAN CAN PACT

## EMPLOYEES GET 10-CENT RAISE IN CINCINNATI

### New Contract at Edna Brass Chain Union Shop Rights For SWOC Local 2148

CINCINNATI, O., Feb. 27.—American Can Co. has renewed its contract with SWOC Local 2148, under which workers operating in one of the company's 100 plants will receive a 10-cent raise.

A general March vote of 10 cents an hour is provided in the pact, affecting over 1,000 employees. The new contract includes a 10-cent raise, a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

## INDIANAPOLIS LOCAL INVESTS \$2,700 IN BONDS



Members of SWOC Local 118, 1248 Bell Co., Indianapolis, Ind., recently purchased Defense Bonds totaling \$2,700 from funds from the local treasury. The picture above shows a group of local leaders who were present when the bonds were issued. From left to right are: Kenneth J. Smith, treasurer of the local; Ray, Joseph V. Gomez, recording secretary of the local; and other members.

## MEMBERS GET AID IN COMPENSATION

YOUNGSTOWN, O., Feb. 27.—A "compensation committee" made up of 24 members representing two local unions in the Youngstown district has been established. James G. Griffin, chairman of the committee, said:

"The main purpose of the committee will be to see that the SWOC members get their share of the compensation money. It is our duty to see that the members get their share of the compensation money."

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

The committee will be made up of 24 members representing two local unions in the Youngstown district. It will be responsible for seeing that the members get their share of the compensation money.

# Reading, Pa., Locals Donate One Day's Pay to U.S.

## MEMBERS SHOW DESIRE TO AID, MEDRICK SAYS

### Time-and-a-Half Rates Are Used to Compute Gift at American Safety Table

Reading, Pa., Feb. 27.—Approximately 1,000 steel workers, representing a membership of three SWOC local unions, voted to donate one day's pay to the United States government to help the war effort. George Medrick, SWOC assistant district secretary, said:

"The action, Mr. Medrick said, was taken voluntarily by SWOC members at the American Safety Table's and Lanthier Printing Co., 44 Third and Erie streets, Reading, Pa. The contribution of the employees of the American Safety Table Co. was \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700."

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

The employees of the American Safety Table Co. were \$1,000. The employees of the Lanthier Printing Co. were \$1,700. The total amount donated was \$2,700.

## MOLTRUP STEEL CO. PAYS \$11,238 BACK PAY TO SWOC MEMBERS



Local 118 of Moltrup Steel Co. has received \$11,238 in back pay from the company. The picture above shows a group of local leaders who were present when the money was distributed.

## Wickwire-Spencer Re-Signs Contract

Buffalo, N. Y., Feb. 27.—A new contract has been signed by the Wickwire-Spencer Steel Co. of Buffalo, N. Y., with SWOC Local 118, covering 1,400 employees in this plant. The company agreed to the new contract after the SWOC members had threatened to go on strike.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The company agreed to the new contract after the SWOC members had threatened to go on strike. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

## Solid Vote Given SWOC in Memphis

### Second Unanimous Vote Won in Tennessee Mills

Memphis, Tenn., Feb. 27.—The SWOC Local 118, 1248 Bell Co., Memphis, Tenn., has received a second unanimous vote of 100 percent in favor of the union. The vote was taken at a meeting of the local in the city of Memphis.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

The vote was taken at a meeting of the local in the city of Memphis. The vote was 100 percent in favor of the union.

## Indiana Plants Sign New Pacts

### Pay Increase Won in First SWOC Contract Signed By Shirley Corp.

Indianapolis, Ind., Feb. 27.—A new agreement has been signed by the SWOC Local 118, 1248 Bell Co., Indianapolis, Ind., with the Shirley Corp. of Indianapolis. The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

The new contract provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift. The new contract also provides for a 10-cent raise in the night shift, and a 10-cent raise in the day shift.

## Won't Shave Until Bethlehem Signs

Bethlehem, Pa., Feb. 27.—The SWOC Local 118, 1248 Bell Co., Bethlehem, Pa., has announced that its members will not shave until the company signs a new contract. The members of the local are currently on strike.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

## TUBE CITY LOCAL BUYS NATIONAL DEFENSE BONDS



Members of the Tube City Local have purchased National Defense Bonds. The picture above shows a group of local leaders who were present when the bonds were purchased.

The members of the local have purchased National Defense Bonds. The total amount purchased was \$2,700.

The members of the local have purchased National Defense Bonds. The total amount purchased was \$2,700.

The members of the local have purchased National Defense Bonds. The total amount purchased was \$2,700.

The members of the local have purchased National Defense Bonds. The total amount purchased was \$2,700.

The members of the local have purchased National Defense Bonds. The total amount purchased was \$2,700.

## NOTICE TO MEMBERS

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.

The members of the local are currently on strike. They will not shave until the company signs a new contract.





# California Locals Endorse SWOC Demands

## ACTION TAKEN AT STATE-WIDE UNION PARLEY

### Oakland Conference Also Sets Goal of \$750,000 Defense Bonds

Oakland, Cal., Feb. 27.—Sixty-one delegates from 29 local unions of the SWOC in California, representing a membership close to 20,000, unanimously pledged their support of the present policy of the union to secure a wage increase of not less than one dollar per day, the check-off of union dues, and union security.

This action took place at the fifth semi-annual state-wide conference of SWOC local unions in California held at the Hotel Oakland.

The delegates returned to their local unions determined to secure the reinforcement of their memberships to the SWOC program to preserve and extend the social gains achieved by the union during the past five years in California.

#### Buy Defense Bonds

The conference also went on record urging SWOC members in the state to purchase at least \$750,000 in Defense Bonds during 1942, an amount sufficient to supply three tank squadrons.

SWOC local unions and members were urged to organize semi-collecting campaigns.

The CIO Defense Plan calling for industry-wide councils received the unanimous support of the conference.

District Director James Thomas was elected chairman of the conference, and William Black of Local Union 2286 (Columbia Steel Office Workers at Torrance) was elected secretary.

Director Thomas reviewed the activities of the organization since the preceding conference held in Maywood last July.

## SWOC INVESTS \$50,000 IN BONDS



David J. McDonald, secretary-treasurer of the SWOC, is shown above at the left, turning over to Frank Denton, chairman of the Alameda County Defense Bond Committee, a check for \$50,000 which the SWOC invested in Defense Bonds.

In the center is Clark Appelle, of the SWOC national office, who is serving on the County Bond Committee.

The \$50,000 investment is entirely separate from the thousands of dollars SWOC locals throughout the nation are investing in bonds and stamps.

## SWOC Men Awarded Navy 'E' Medals

Ambleridge, Pa., Feb. 27.—Employees at Wycoff Drawn Steel Co. were awarded "E" pins recently by the company, symbols of "Excellence in Production" in defense materials. The company was given the right to make use of the "E" by the U. S. Navy Department.

All of the company's employees are members of the SWOC, and Manuel Ward, SWOC representative in the district.

## SWOC WINS VOTE AT INTERLAKE IRON CO.

S. Chicago, Ill., Feb. 27.—By a vote of 429 to 263, the SWOC won bargaining rights for employees at two plants of the Interlake Iron Co. through an election conducted by the National Labor Relations Board.

The election was held to determine whether SWOC Local 1657 or the "Employees Association of Interlake Iron" should act as bargaining agent for the employees.

## 'BIG STEEL' PACT TO BE REOPENED

(Continued from Page 1)

clause has always remained the same. In contrast to the union's relations with "Big Steel" in that involving "Little Steel," in 1937 these companies refused to sign contracts with the union, resulting in thirteen strikes that summer. Last year, 19 Labor Board elections at Bethlehem's plants and through a membership check against payrolls at the other three companies, the SWOC has won exclusive bargaining agent for the 175,000 employees in these companies.

Since the SWOC's inception in 1938 it has taken part in 437 Labor Board elections, winning exclusive bargaining rights for 254,000 steel workers.

#### PAY YOUR DUES

## Plan Will Boost Steel Output

(Continued from Page 1)

600 light tanks, 10 battleships and 4,000 heavy tanks.

Mr. Murray's communitarian ideas of low government maximum prices are being violated by scrap brokers frequently in collusion with steel companies.

"From the outset when the Office of Price Administration, on April 3, 1941, established maximum prices on sales of iron and steel scrap other than railroad scrap, the scrap iron and steel industry, especially the brokers in it, began to promote a 'shortage scare' for the purpose of attempting to break the maximum price ceiling," Mr. Murray said.

These interests won a concession from the government through a revised price schedule issued on December 23, "but despite this concession, which has succeeded in increasing scrap prices, substantial interlocking in scrap iron and steel is still endangering the war production program to gain still further profits."

"Steel firms are also promoting the 'shortage scare,'" he said, "to avoid expansion and thereby 'protect' monopolistic control."

He declared the present scrap shortage at certain mills is a temporary thing and that there is enough scrap in this country to keep the mills going at 100 per cent of capacity for the next five years. The difference between the present operation of around 90 per cent and 100 per cent represents the loss of some 2,000,000 tons. More than 20 open hearth furnaces are idle today for lack of scrap—which means a loss every 24 hours of more than 3,000 tons of steel.

The active supply of scrap should be placed under a system of allocation—a distribute scrap to the mills that need it; that the present twenty major scrap-consuming areas should have adequate held stocks to assure the tonnage of existing scrap supplies, to assist in regular collection of scrap and administer the allocation of supplies.

"The needed scrap will not flow of its own accord to the steel furnaces, but will inadequate equipment to collect iron and steel scrap, which adequate tonnage," he said. "It has to be recovered, shipped and processed in a systematic manner. Obviously this is not being done by merely relying upon the methods of scrap collection in 'business as usual' times."

Mr. Murray proposed that the government convene a meeting of the scrap interests, steel firms and the SWOC for the "purpose of effectuating a practical program to keep the steel furnaces of Democracy's Arsenal burning at total capacity."

## U. S. HONORS WORKERS AT GREAT LAKES STEEL



Secretary of the Treasury Henry Morgenthau is shown above, second from the right, presenting a license to Great Lakes Steel Corp., Escrow, Mich., after more than 90 per cent of the company's employees agreed to purchase National Defense Bonds under a check-off system.

Local 1236 of the SWOC is already established in the plant. Flashed on the banner is the "Minute Man," symbolic of the Defense Bond and Stamp drive.

Heading at Mr. Morgenthau's right is Stanley Cook, president of Local 1276.

January 28, 1942

Dear Mr. Murray:

I think you may be interested in seeing the enclosed picture taken during my visit to the Detroit area on Sunday. The gentleman on my right is Stanley Cook, President of Local #1299 of your own Steel Workers Organizing Committee. This flag was awarded at the Great Lakes Steel plant, where more than 90% of your union members are saving regularly out of their pay for the purchase of Defense Bonds. They have been making a perfectly wonderful response to the Defense Savings campaign.

It gave me a real lift to go to the Detroit area and see the extent of C.I.O. participation in our payroll savings plans. My wife went for me to the Chrysler Tank Arsenal and said that the enthusiasm among the C.I.O. workers there was thrilling. Later I had the privilege of speaking to a great and friendly audience of U.A.W.-C.I.O. workers at the Coliseum, and again found a spirit of which you may well be proud.

Sincerely,

[Signed] E. J. McCarthy

Mr. Philip Murray,  
President, Congress of  
Industrial Organizations,  
1100 Connecticut Avenue,  
Washington, D. C.

to Mr. Thompson

FK/hhb



THE SECRETARY OF THE TREASURY  
WASHINGTON

January 28, 1942

Dear Phil:

I think you may be interested in seeing the enclosed picture taken during my visit to the Detroit area on Sunday. The gentleman on my right is Stanley Cook, President of Local #1229 of your own Steel Workers Organizing Committee. This flag was awarded at the Great Lakes Steel plant, where more than 90% of your union members are saving regularly out of their pay for the purchase of Defense Bonds. They have been making a perfectly wonderful response to the Defense Savings campaign.

It gave me a real lift to go to the Detroit area and see the extent of C.I.O. participation in our payroll savings plans. My wife went for me to the Chrysler Tank Arsenal and said that the enthusiasm among the C.I.O. workers there was thrilling. Later I had the privilege of speaking to a great and friendly audience of U.A.W.-C.I.O. workers at the Coliseum, and again found a spirit of which you may well be proud.

Sincerely,

Mr. Philip Murray,  
President, Congress of  
Industrial Organizations,  
1106 Connecticut Avenue,  
Washington, D. C.

March 9, 1942

Dear Mr. Murray:

Thank you very much for sending me a copy of your broadcast on war production. It was an excellent talk and I should like to send you my congratulations.

I appreciate your courtesy in enabling me to have the full text.

Sincerely,

(Signed) H. Kervathou, Jr.

Secretary of the Treasury

Mr. Philip Murray  
President  
Congress of Industrial Organizations  
1106 Connecticut Avenue, Northwest  
Washington, D. C.

FK:blb (3/9/42)

*File P.M.C.  
copies to Shoup*

CIO  
CONGRESS OF INDUSTRIAL ORGANIZATIONS

1106 CONNECTICUT AVENUE, NORTHWEST

WASHINGTON, D. C.

Office of  
the President

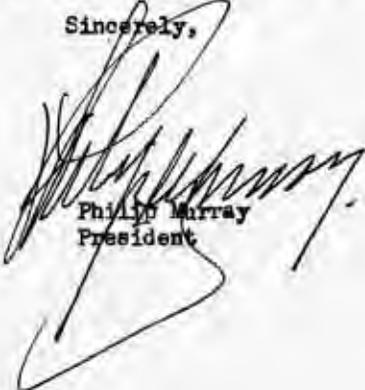
TELEPHONE DIRECTORY 5502

*Kulman*  
*1/2*  
March 6, 1942The Honorable  
Secretary of the Treasury  
Washington, D. C.

Dear Mr. Secretary:

I am sending you herewith a copy of the nation-wide broadcast which I shall deliver tonight over the Blue Network, to express the response of the Congress of Industrial Organizations to the call of President Roosevelt for the immediate stepping up of war production.

Sincerely,

  
Philip Murray  
President

uopwa 27

## WE'LL WORK TO WIN

By Philip Murray, President  
Congress of Industrial Organizations

(A nationwide broadcast delivered over the Blue Network  
on Friday, March 6, from 10:15 to 10:30 P.M., EST)

The President of the United States and Donald Nelson, Chairman of the War Production Board, have challenged labor and industry to speed up war production immediately, on a greater scale than has ever been attempted in any country in the history of mankind. I am going to accept this challenge tonight on behalf of the five million working men and women who make up the Congress of Industrial Organizations.

Our President is now our Commander-in-Chief in a world war which threatens not only our nation's security and our very lives, but all our freedoms, our way of life, and our living standards, as no previous war has ever done. There can be no question of the response of true American working men and women to the demands of our Commander-in-Chief in such a war. It is the wholehearted and enthusiastic response of good soldiers of democracy, who know that everything depends upon united and disciplined support of our great leader.

But I can go much further than this. For I speak for the working people, who have more at stake in this war than perhaps any other section of our population. We are fighting nations whose economy is based on slave labor. In Germany, Italy and Japan there are no labor unions, as we know them. On the contrary, the first aim of any Nazi or Fascist movement is to destroy the labor unions. Labor leaders are stood up against the wall and shot. Workers who seek better conditions in the shop are hounded, beaten, placed in concentration camps or murdered.

Without union protection and without democracy, the workers are ground down to eelie wage levels and intolerable working conditions. They are treated as voiceless instruments of their dictators, their war lords and their industrialists. In every country conquered by Hitler and his gang, like conditions, or even worse, have been imposed on the working population. A similar fate will certainly be in store for the working people of America, if our fighting strength is not sufficient to crush the military might of the Axis.

We know that this is labor's war. We of labor must be more than loyal followers and patriotic citizens. We are and must continue to be leaders in the demand for more production and for every step that is necessary to win the war.

-2-

Certainly the history of the war to date leaves no room for complacency. Hitler has counted on the softness and the complacency of every country he has conquered. The Japanese have taken full advantage of our unpreparedness. Furthermore, the months which lie immediately ahead will be of crucial importance, particularly in the field of industrial production. Our whole country, and every man and woman in it, must be aroused and mobilized for total war, for a tremendous transformation from a peaceful people to a nation of warriors, if we are to turn the tide of battle from defense and retreat to offense and victory.

When I speak of a nation of warriors, I am thinking too of our industrial workers. Modern mechanized warfare calls for some 18 workers in industry for every man at the front. Each fighting man depends for his very life on the workers who produce his munitions, his arms and his supplies. They too must think as soldiers, bending their every effort for more and more production, for one purpose above all others -- victory for our armed forces.

We pledge our complete and wholehearted support to our Commander-in-Chief, President Roosevelt, for the achievement of the production goals which he has set. In doing so, we are mindful that upon the shoulders of labor rests the primary responsibility for achieving these goals. We are also mindful that the experience of other countries has taught us other lessons besides the fate which lies in store for labor if Hitler wins. It has taught us that national unity can be undermined by appeasers and Quislings, whose subtle propaganda can be as dangerous as actual plant sabotage. We are determined that our country shall not suffer the fate of France or Norway, through the disruptive efforts of fifth columnists or self-proclaimed patriots who preach disunity.

At the present time, in particular, we must guard against carping critics of our President and of the program which he has initiated for winning the war. Constructive criticism we must have, to mobilize our full democratic effort. But let the appeasers and the men of faint heart beware of the wrath of America's workers, if their constant carping cloaks a purpose to dis-unite, to confuse, and to sabotage our war effort.

Mr. Donald Nelson, our Production Chief, has just announced a concrete program for increasing and speeding up war production. We welcome this program most heartily and pledge our enthusiastic cooperation for placing it into execu-

sion. In fact, we of the CIO take pride in the knowledge that we have been pioneers and leaders in the demand for just such a program for mobilizing American industry for all-out war production.

The Industry Council Plan which the CIO advanced more than a year ago was designed for just this purpose. So too were the proposals advanced by our unions in all the major industries for early conversion to war production and industry-wide planning. We were the first to put forward concrete proposals for producing more steel, more aluminum, more copper, more airplanes and more of all the other goods and services that are needed for victory.

We take courage and renewed inspiration from the fact that our Production Chief is now urging steps which we have long advocated. The joint labor-management plant committees which he proposes are directly in line with our Industry Council proposals, as is the whole spirit of the program which he advances.

Speaking now to the officers and members of our affiliated unions and councils, I call upon you to act without delay in the spirit of the call issued by our President and our War Production Chief. Many of you, I know, have already approached the managements in your respective plants with concrete proposals for joint effort to increase production. In many cases, where such committees have been set up, production has increased from 10 to 50 per cent.

In some cases, it is true, we have encountered reluctance on the part of management. But now that such committee planning for increased production has become the national policy of our government, I am sure that we can count on patriotic employers to join with labor in setting up functioning committees for the promotion of every constructive step to produce more and more. The goals cannot be set too high.

Production Chief Nelson has also advanced proposals for appropriate awards for the soldiers of industry as well as for our soldiers in uniform. This is a splendid idea. So too is his proposal for enlisting the spirit of American competition in achieving ever higher production quotas. I know that our CIO members will enter wholeheartedly into this spirit of patriotic competition.

Perhaps some of my non-labor listeners may be saying to themselves at this point: "All you have said is fine and dandy, but what is all this we read about strikes and about labor trying to take a selfish advantage?"

Let us meet this question squarely and frankly. Let us clear from our minds the fog of propaganda deliberately spread by profiteers, reactionaries and appeasers who are trying to take a selfish advantage over labor in this emergency. If we so examine the facts, we will find labor's position is firm and consistent, that winning the war must be our first consideration, and that nothing must be allowed to interrupt war production.

Labor itself was the first, of its own free will, to advance an effective program for the ending of strikes. No sooner was war declared than both the Congress of Industrial Organizations and the American Federation of Labor, assembled in conference with representatives of industry and government, solemnly pledged themselves to set aside the strike weapon for the duration of the war. We also advanced proposals, accepted by the President, for the peaceful solution of all labor disputes, through mediation, conciliation and arbitration.

There has not been a single authorized strike in a war industry since that time, and all the efforts of the CIO and its unions have been directed to ending at once such minor incidents as have occurred. These incidents have been few and of the briefest duration, but they have been grossly inflated and misrepresented by selfish propagandists for the purpose of promoting anti-labor legislation. There is no force, not even that of a complete dictator, which can furnish any absolute guarantee that a man will not cease working under conditions which he finds intolerable. The best guarantee that can be given under a free system is the pledge of the workers' own democratically elected representatives and the assurance that collective bargaining will remedy grievances without the need to strike.

The CIO can point to a record of uninterrupted production by millions upon millions of industrial workers; and to the peaceful solution of thousands of grievances and disputes which might otherwise have led to stoppages, had there been no union on the job to prevent them. We are determined to maintain this record.

I am again calling the attention of our unions and our membership to the solemn agreement, to which we have voluntarily subscribed, that "there shall be no strikes or lockouts", and "all disputes shall be settled by peaceful means". This is our commitment to our President and to our country. I call upon all our unions, their officers and their members, to exercise the utmost patience and tolerance in adjusting all disputes. Proper channels are now provided for their

-5-

peaceful adjustment. Support your country and your unions by seeing that not an hour of production-time is lost from any cause, until we win the war.

Production Chief Nelson has called for a 168-hour working week for the machinery of industry. We are wholeheartedly in favor of working our plant and equipment every hour of the week that it can be utilized. Our unions, in many cases, have been the first to call for 24-hour and seven-day week production.

But human beings are not machines. Their efficiency depends upon reasonable working hours and adequate rest periods. Practical experience in Great Britain and other countries, under war conditions, has shown a sharp decrease in actual production when excessive hours were worked; and working hours have had to be reduced for the very purpose of increasing production.

In conclusion, I want to stress again and again to labor and to the public that America is today at the parting of the ways. If we lie down on the job, if we shirk, if we listen to the sly preachers of disunity and complacency, if we fail to back up our armed forces with all that is in us, we can go down to defeat, dishonor and the loss of all our liberties -- to the complete blackout of civilization which Hitler and the Axis are fighting to bring about.

But if, on the other hand, the American people, and the working people in particular, are true to ourselves and to our country, if we stand loyally behind our President, if we devote our every thought and effort to more and more production, more effective civilian defense, and more and more support to our armed forces, we shall turn the tide of battle in these very days and weeks that lie ahead of us, to final and complete victory. Our destiny is in **our** hands -- the hands of every one of us.

To labor, and particularly to the members of the Congress of Industrial Organizations, whom I have the honor to represent, I say: Get on the job at once! Heed the call of our Commander-in-Chief and our country! Let our slogan be: **WORK, WORK, WORK! PRODUCE, PRODUCE, PRODUCE!**

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. 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 <sup>1</sup>	-
Mar. 1	none-closed	none-closed	24,386	-
2	304	500	24,582	-
3	160	500	24,922	625
4	171	500	25,251	-
5	200	500	25,551	625
6	210	500	25,841	-
7	211	none-closed	25,630	625

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

March 9, 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.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Six Business Days of March, February and January 1942  
 (March 1-7, February 1-7, January 1-7)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	March	February	January	March over February	February over January	March over February	February over January
Series E - Post Offices	\$ 23,708	\$ 28,490	\$ 36,385	-\$ 4,782	-\$ 7,895	- 16.8%	- 21.7%
Series E - Banks	<u>65,889</u>	<u>108,273</u>	<u>86,171</u>	- <u>42,384</u>	<u>22,102</u>	- <u>39.1</u>	<u>25.6</u>
Series E - Total	89,597	136,763	122,555	- 47,166	14,208	- 34.5	11.6
Series F - Banks	11,354	21,136	13,573	- 9,782	7,563	- 46.3	55.7
Series G - Banks	<u>59,086</u>	<u>97,261</u>	<u>60,150</u>	- <u>38,175</u>	<u>37,111</u>	- <u>39.3</u>	<u>61.7</u>
Total	<u>\$160,037</u>	<u>\$255,160</u>	<u>\$196,279</u>	- <u>\$95,123</u>	<u>\$58,861</u>	- <u>37.3%</u>	<u>30.0%</u>

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

March 9, 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	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
3	2,975	8,459	1,629	8,780	18,868	11,434	1,629	8,780	21,843
4	3,395	8,833	2,658	12,558	24,048	12,228	2,658	12,558	27,443
5	3,869	10,448	1,680	11,870	23,998	14,317	1,680	11,870	27,867
6	4,179	10,696	1,759	10,825	23,279	14,875	1,759	10,825	27,458
7	3,480	11,586	1,586	6,328	19,499	15,066	1,586	6,328	22,979
Total	\$ 23,708	\$ 65,889	\$ 11,354	\$ 59,086	\$136,329	\$ 89,597	\$ 11,354	\$ 59,086	\$160,037

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

March 9, 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

113

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 9, 1942

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending March 7, 1942.

Summary

(1) The Federal Reserve Board's preliminary and confidential estimate of the seasonally-adjusted index of industrial production for February is 173, as compared with 171 (revised) for January. Aggregate industrial output rose more than seasonally, largely as a result of increased activity in the manufacture of armament.

(2) Stock prices moved lower last week, with selling attributed to prospects of heavier taxation and adverse war news. The Dow-Jones average of industrial stocks declined to the lowest level since 1938, while the average of utility stocks reached the lowest point since its compilation was begun in 1929.

(3) Despite relative stability in basic commodity prices, the general price level continues to rise. With a further advance of 0.3 percent to 96.8 in the last week in February, the BLS all-commodity index has reached the highest level since September 1928. The index now stands 29.1 percent above the level of August 1939 and 5.0 percent above that of the week before the attack on Pearl Harbor.

(4) National income payments moved up to a new record annual rate of \$101.2 billions in January. However, the purchasing power of national income fell slightly below that of December, due to the relatively sharp rise in living costs during the month.

(5) The tonnage of steel ingots scheduled for production last week slightly exceeded the previous record set last fall. However, the operating rate of 97.2 percent of capacity has been bettered on numerous occasions. Operations during the current week are scheduled at 97.4 percent of capacity.

### Industrial production at new high

Aggregate industrial output last month showed further gains. The Federal Reserve Board's preliminary and confidential estimate for February indicates that the seasonally-adjusted index of industrial production during the month rose 2 points to a new high of 173. (See Chart 1.) The gain was due to the fact that actual output rose more than seasonally, and on the whole slightly exceeded the previous peak levels attained last fall. Activity was sharply reduced in the automobile industry, and was also out somewhat in the woolen textile, and paper industries. However, these declines were more than offset by increases in other industries, principally those engaged in armament manufacturing. Despite the recent gain in industrial output, the Production Director of the WPB last week stated that shortages of materials threatened to prevent attainment of some of the production goals set by the President.

The rise in the industrial production index last month contrasts with the declines shown during most of the period by the New York Times' and Barron's weekly indexes of business activity. However, as man-hours expended on war materials output assume increasing importance as a gauge of production, weekly indexes of business activity are likely to show greater divergences from the monthly FRB index than in the past. Moreover, the coverage of weekly indexes has been reduced in recent periods due to discontinuation of weekly production data for the automobile and cotton textile industries.

### Stock market declines to new low

In the face of mounting industrial activity, the stock market continues to move lower. Under the impact of additional adverse war news and the outlook for further tax increases, the Dow-Jones industrial stock averages last week declined over 4 percent to a new low since 1938. (See Chart 2.) On a relative basis, utility stocks made an even poorer showing and declined to the lowest level since compilation of the average was begun in 1929. Friday's closing utility average of 12.20 contrasts strikingly with the record high of 144.61 reached on September 21, 1929. The volume of trading was relatively light until near the end of the week, when activity increased moderately as the market weakened.

Even railroad stocks, which have recently been resisting the declining trend of the market, sagged moderately in the latter part of the week. Excellent traffic prospects,

improved earnings and finances, as well as relatively lighter tax burdens, have contributed to the stronger market performance of these stocks. (Refer to Chart 2.) Early last week the Interstate Commerce Commission authorized freight rate increases equivalent to about two-thirds of the amount sought by the railroads, in order to offset increases in wage rates and other costs. Judging from subsequent action of railroad stocks, the ICC decision was about in line with market expectations.

While the rise in freight rates will enable the railroads largely to offset recent wage increases, they will also add to industrial costs, which will have to be absorbed into the general price structure. At last year's traffic level, the increased rates would raise the national freight bill by about 203 million dollars annually.

#### Wholesale prices continue to rise

Extensive control of basic commodity prices has not kept the BLS all-commodity price index of nearly 900 commodities from continuing its upward climb. In the week ended February 28 the all-commodity index rose 0.3 percent to 96.5, the highest point since September 1928. The index now stands 29.1 percent above the August 1939 pre-war level. (See Chart 3, red line.)

After levelling out from mid-September through the week ended December 6, wholesale prices rose sharply in the week following the Pearl Harbor attack, and resumed their general upward trend. From December 6 to the end of February the index advanced 5.0 percent. As is shown in Chart 4, four component indexes accounted for most of the advance: farm product prices increased 12.3 percent; chemicals and allied products, 8.2 percent; foods, 7.7 percent; and textile products, 4.6 percent. That chemical prices have not risen higher is doubtless due to broad action taken by the OPA and the Board of Economic Warfare. Textile prices in the week ended February 28, it will be noted, advanced more than prices for any other group, reflecting sharply increased prices for woolen and worsted materials, and moderate increases in clothing prices.

#### Basic commodity prices higher

The BLS price index of basic commodities moved upward last week, departing from its previous stable trend. (See Chart 5.) The indexes for foodstuffs and raw industrial materials both advanced. The rise in foodstuff prices was due principally to higher prices for livestock and livestock products. Hog prices have now advanced 32.1

percent since December 6 and 107.3 percent since August 1939; prices for steers have advanced 8.2 percent since December 6; and lard prices have increased 17.7 percent since December 6 to ceiling levels.

Price changes among industrial raw materials last week were limited to three commodities. Flaxseed prices continued their broad rise, and wool prices advanced, while cotton prices declined slightly. The strength in flaxseed and linned oil prices was intensified by further stringency in shipping space from Argentina and an announcement that the Canadian Government had "frozen" all flaxseed stocks in elevators and mills because of the international situation restricting supplies of vegetable oils.

#### Cotton textile situation tightening

Sales of cotton goods, especially of unfinished goods, are currently exceeding their very high production volumes, and it is believed in the trade that shortages will develop by next summer on many classes of finished goods. Manufacturers of finished goods are finding it difficult to obtain continuous and unvarying supplies of cloth, and manufacturers of cotton goods are finding it increasingly difficult to obtain adequate supplies of yarn.

In January, cotton mills consumed raw cotton at a record daily level, although this was only two percent over the rate in effect ten months ago. Only a very small percentage of spindles were idle, and those in operation averaged close to 19 hours of active work a day. The chief limit to some further activity is reported to be a shortage of satisfactory labor.

The Department of Agriculture forecasts an even greater rate of mill consumption of cotton in the months immediately ahead, at a level which will materially reduce the carry-over of raw cotton as of August 1, 1942. Factors contributing to greater cotton consumption are reduced imports of and increased war requirements for jute, hard fibers (principally sisal, henequen and abaca), and wool. Moreover, imports of raw and manufactured cotton, silk, flax, and hemp, now reduced or eliminated, have hitherto aggregated a considerable quantity. In 1935-39, these imports averaged 31 percent of the fibers available for consumers in the United States. Cotton will also have to be used in much larger quantity in place of burlap for the greater requirements in the production, harvesting, and marketing of farm products, and for sandbags.

Some comment is noted of a possible cotton shortage in 1943. In this connection it is significant that Secretary Wickard has called on cotton farmers to plant their full acreage allotment of 27,400,000 acres of cotton in 1942. The 1941 crop of 10,976,000 bales was produced from a planted acreage of 23,250,000.

#### National income payments still rising

National income payments continued to rise in January and attained an annual rate of \$101.2 billions. (See Chart 6.) This compares with an annual rate of \$100.2 billions in the previous month and \$81.7 billions in January 1941. However, due to a relatively sharp rise in living costs during January, the purchasing power of national income payments actually showed a slight decline from the peak levels reached in December. (Refer to Chart 6.)

The total national income produced in 1941 is estimated by the Department of Commerce at \$94.5 billions, or 22 percent above that in 1940. A part of the increase, however, was due to the higher price level, real income showing an estimated increase of 15 percent. Wages and salaries paid in 1941 totalled \$61.2 billions, about 25 percent greater than in the previous year. The Department of Commerce notes that at the end of 1941, national income produced was running at an annual rate of about \$104 billions, of which about 20 percent represented war production.

#### Seasonal decline in non-agricultural employment

Largely as a result of seasonal factors, civil non-agricultural employment in mid-January was 1,235,000 lower than a month earlier. However, 62 percent of the decrease was due to the usual reduction in temporary personnel in wholesale and retail trade following the Christmas holiday sales rush. Total civil non-agricultural employment in January was approximately 39,350,000 -- a gain of 2,700,000 over the year-earlier level. Factory employment rose 1,500,000 during the year, thus accounting for well over half of the total increase.

Analysis of the January non-agricultural employment on a regional basis reveals that the widest gain over year-earlier levels was shown in the Pacific coast States, with an increase of over 17 percent. Nevertheless, the largest gain for any State was shown by Alabama, followed by Oregon, the District of Columbia, and Arkansas, in the order named. Only Florida and Louisiana showed employment decreases from year-earlier levels, although the gain in Michigan was limited to less than 2 percent, due, no doubt, to the curtailment in automobile production. The percentage increase

or decrease in non-agricultural employment by States from January 1941 to January 1942 is shown in the attached Table 1.

Steel operations at new high

Although last week's steel operating rate of 97.2 percent of capacity has been exceeded on numerous occasions, the tonnage of steel ingots scheduled for production last week (in view of the industry's expanded capacity) was slightly above the previous record set at the end of last October. During the current week, operations are scheduled at 97.4 percent of capacity.

In connection with its efforts to break the bottleneck in steel plate production, the WPB announced last week that new specifications had been worked out with the Maritime Commission for plates for the "ugly duckling" cargo ships. As a result, it was stated that 80 to 90 percent of the plates needed for these ships would come from converted strip mills, as compared with only about 10 percent heretofore. This will serve to relieve the heavy pressure on the normal plate-making facilities of the industry.

Table 1

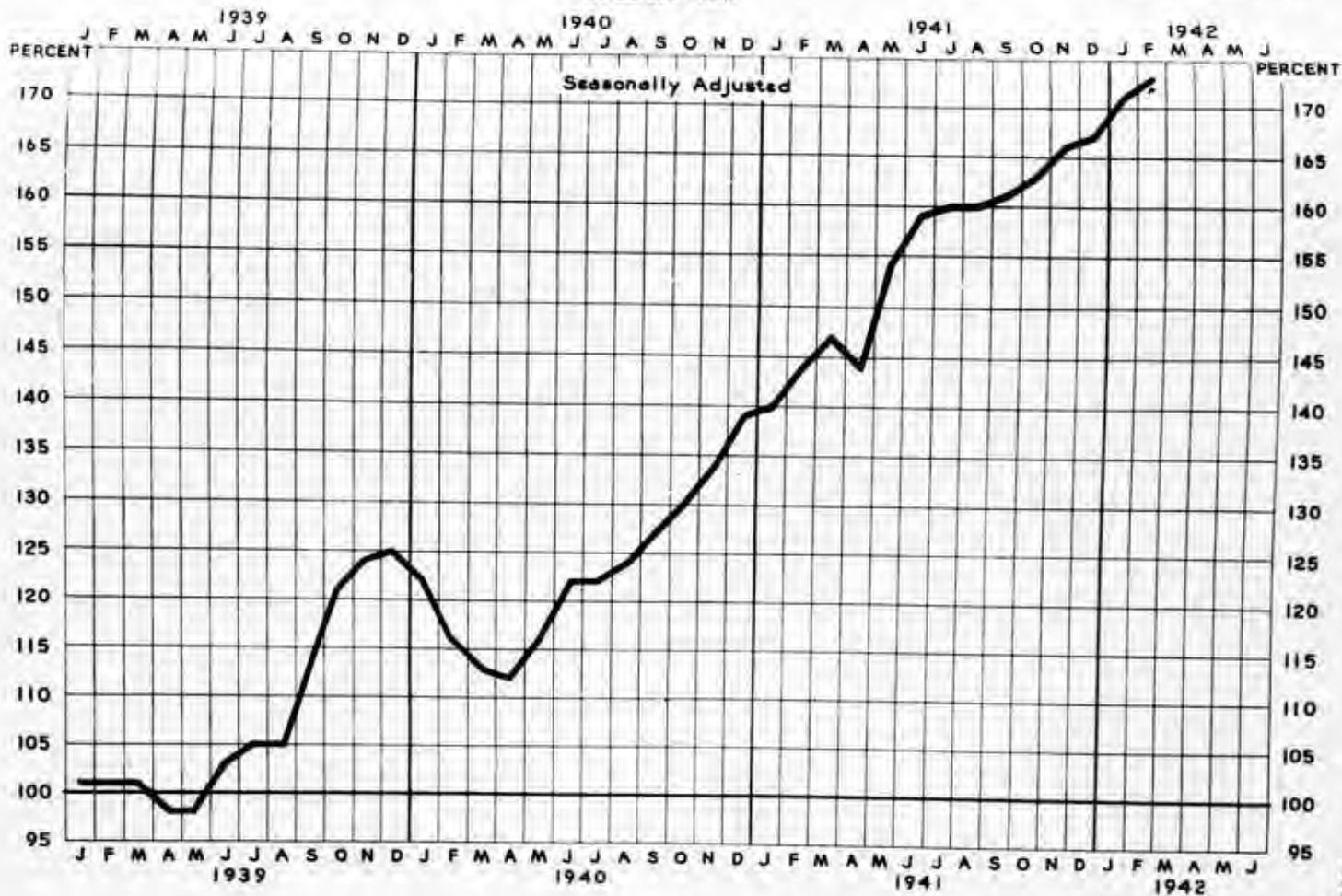
Percentage increase in non-agricultural employment  
January 1941 to January 1942,  
by States

State	Percent increase	State	Percent increase
Alabama	22.9	Illinois	8.8
Oregon	21.4	Utah	8.8
District of Columbia	21.2	Iowa	8.6
Arkansas	17.9	West Virginia	7.8
Washington	17.6	Tennessee	7.8
California	16.4	New Mexico	7.5
Maine	15.5	New York	7.5
Nevada	14.8	Kansas	7.5
Virginia	12.9	Oklahoma	7.0
Missouri	12.3	Idaho	6.5
Nebraska	12.0	South Carolina	6.1
New Hampshire	11.8	Rhode Island	6.1
New Jersey	11.8	South Dakota	5.5
Connecticut	11.5	Kentucky	5.4
Colorado	11.1	Mississippi	4.9
Vermont	11.0	Texas	4.4
Georgia	10.7	North Carolina	4.3
Ohio	10.3	Delaware	4.2
Wisconsin	9.6	North Dakota	3.9
Massachusetts	9.3	Montana	3.6
Pennsylvania	9.3	Wyoming	2.5
Arizona	9.3	Michigan	1.9
Maryland	9.2	Louisiana	-0.9
Indiana	8.9	Florida	-1.5
Minnesota	8.9		

Source: Bureau of Labor Statistics

# FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39=100



weekly range

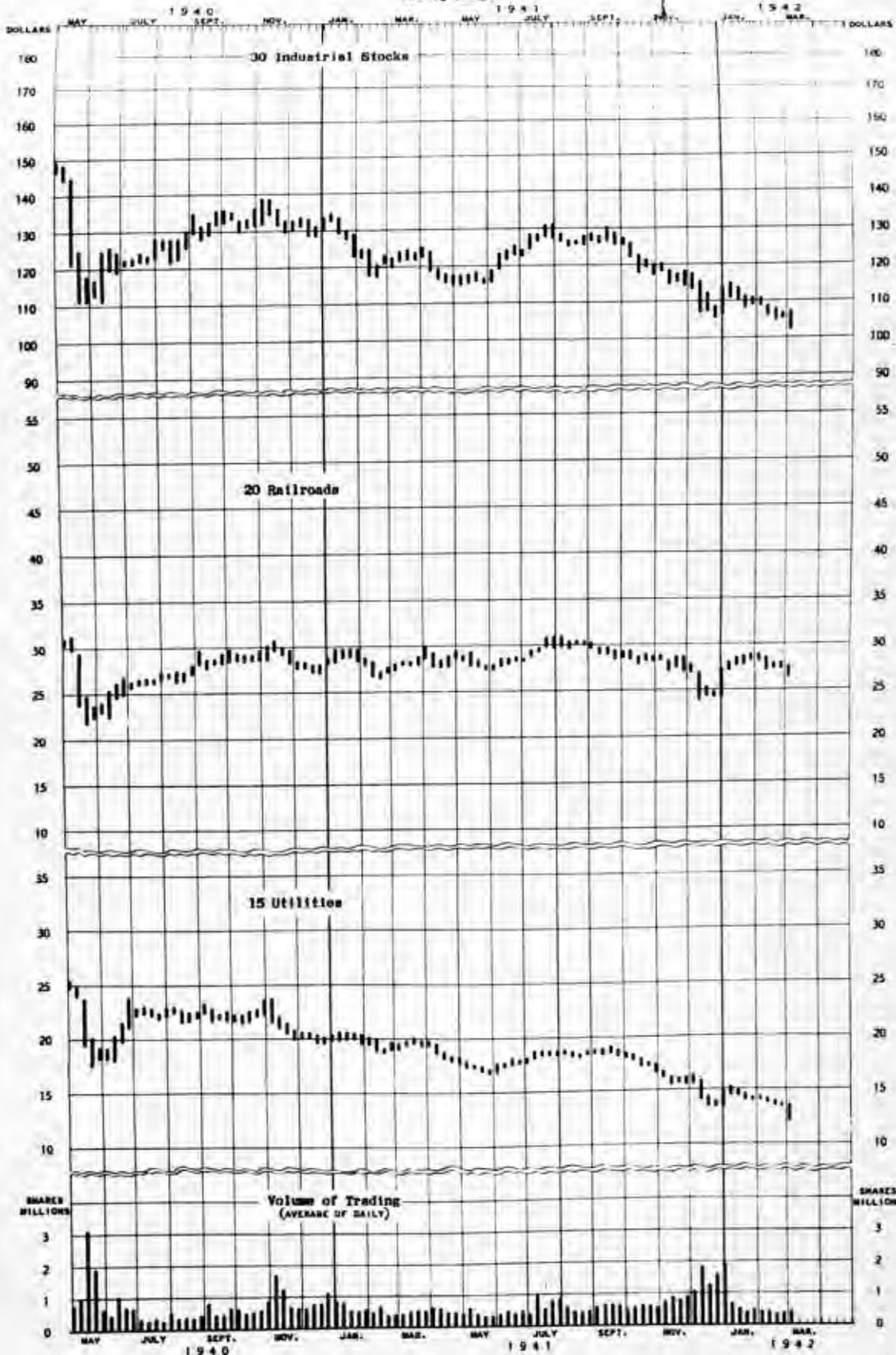
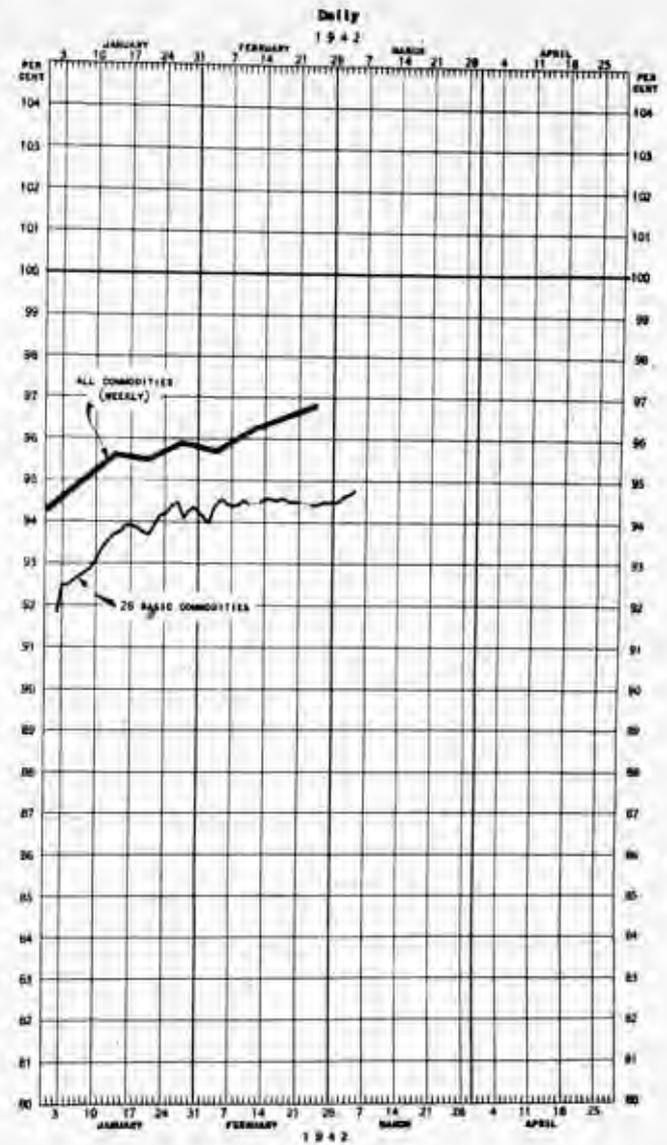
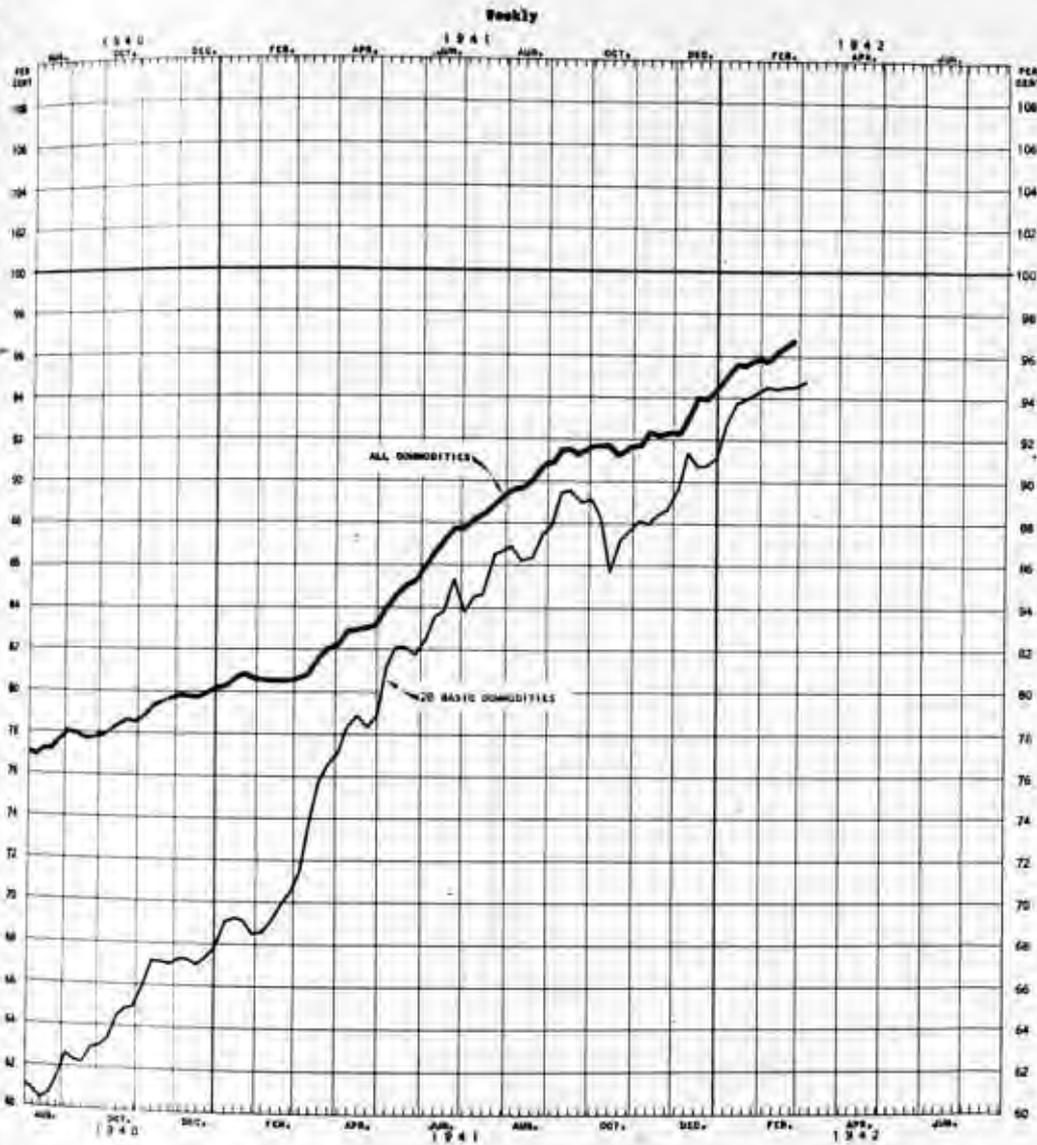


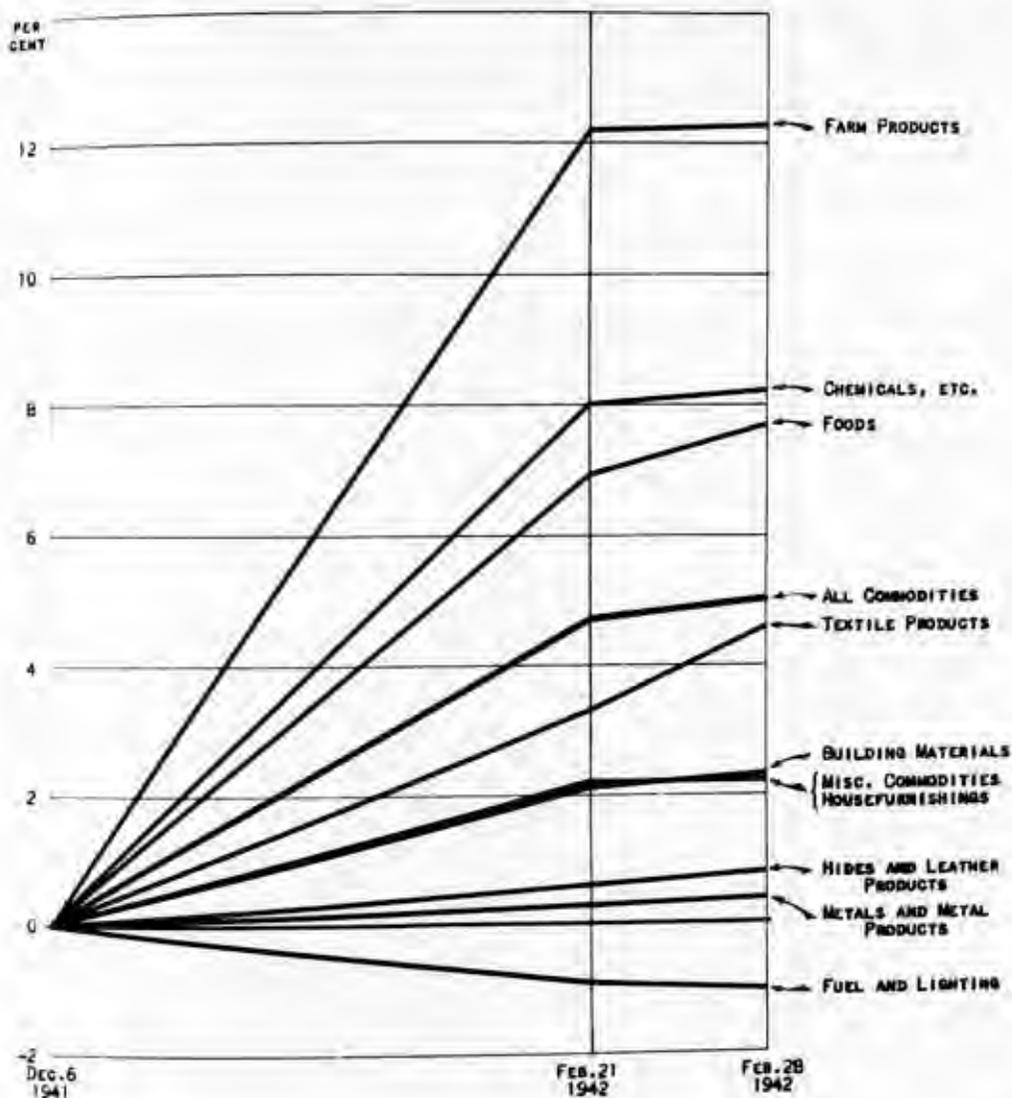
Chart 2  
121

N. L. S. INDEX OF WHOLESALE COMMODITY PRICES  
1929 = 100



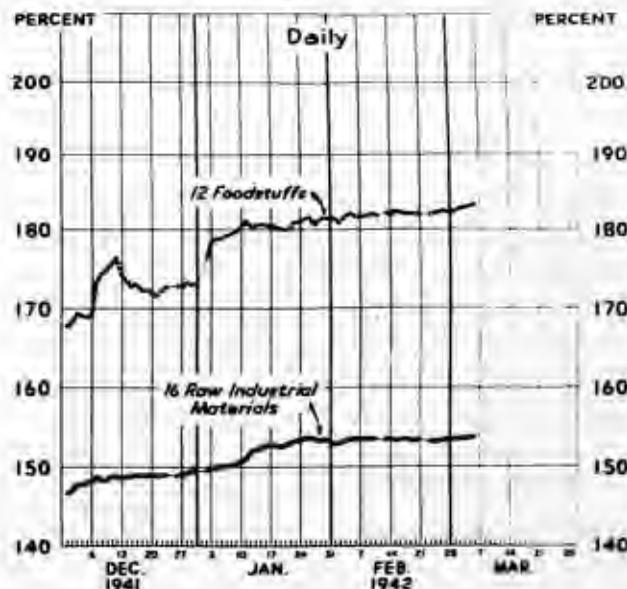
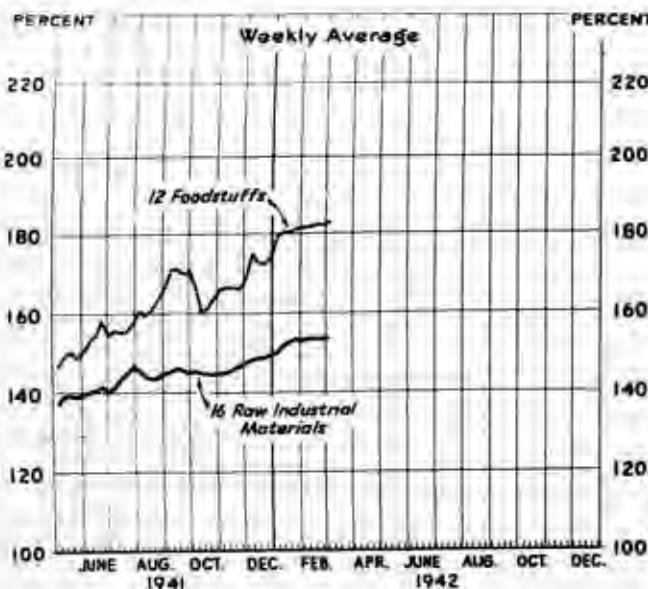
### WHOLESALE COMMODITY PRICES

Percentage Changes in Major Groups of B.L.S. All Commodity Index  
Week Ended Dec. 6, 1941 to Week Ended Feb. 21 and Feb. 28, 1942



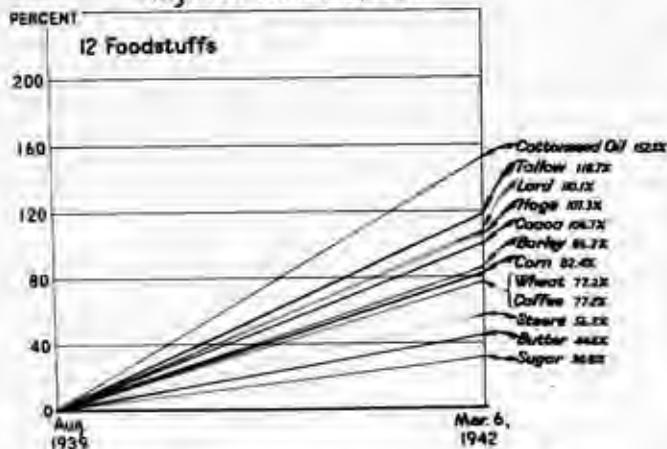
# MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

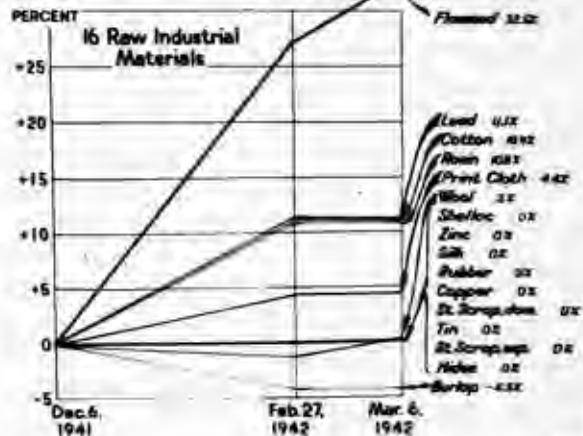
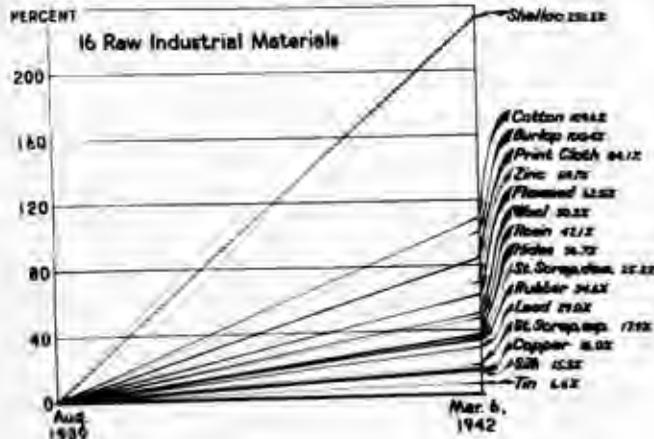
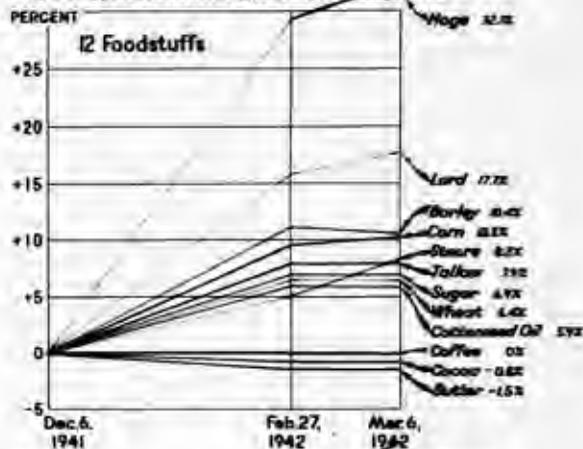


## PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES

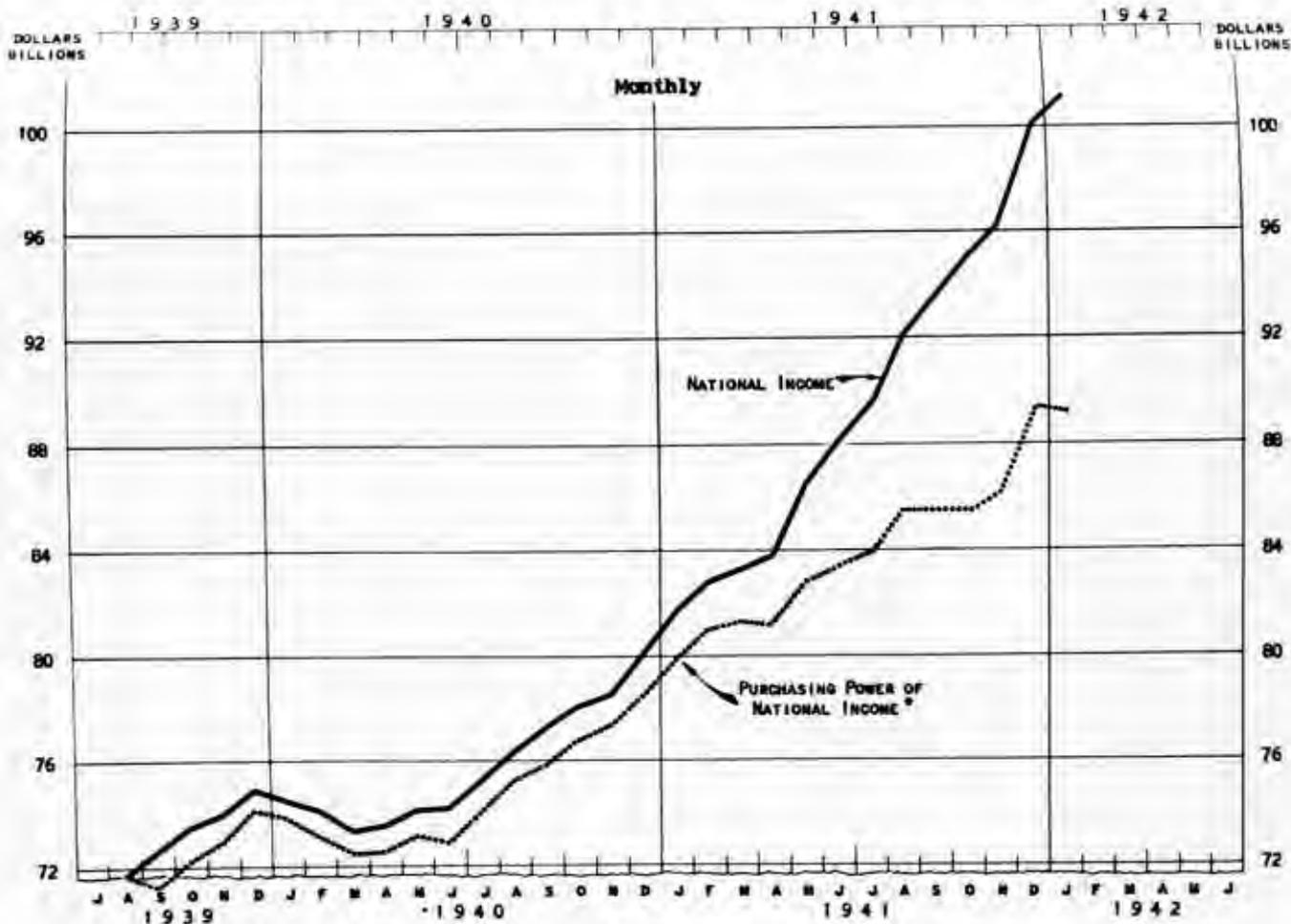
Aug. 1939 to Mar. 6, 1942



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



# NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



\*BASED ON COST OF LIVING INDEX OF B.L.S. AUG. 1939 = 100

March 9, 1942

MONTHLY REPORT OF NATIONAL DEFENSE CASESFEBRUARY 1942

Applications received as of January 31, 1942	9190	
Applications received during February	-	
Previously reported cases reopened	<u>6</u>	
Total received as of February 28, 1942		<u>9196</u>
* * * *		
Completed investigations as of January 31	5647	
Completed investigations during February	<u>177</u>	5824
Total completed investigations as of February 28		
Applications withdrawn as of January 31	486	
Applications withdrawn during February	-	
Applications delivered to Department of Justice	<u>2852</u>	3338
Total applications withdrawn as of February 28		
Total cases closed as of February 28, 1942		9162
Applications pending in office as of February 28	5	
Applications pending in field as of February 28	<u>29</u>	
Total applications pending as of February 28, 1942		<u>34</u>
Total cases disposed of and pending as of February 28		<u>9196</u>

\* \* \* \*

Agents engaged on this work under direction of this office close of February 1942.

Alcohol Tax Unit	-	54
Secret Service	-	-
Customs Service	-	2
Narcotics Service	-	6
Intelligence Unit	-	38

127

Sent to McConnell in New York c/o J. J. O'Connell, Jr.

AIR MAIL

MAR 9 - 1942

Dear Mr. McConnell:

Now that we have reached an understanding that you are to take on the job of running, as its President, the affairs of General Aniline and Film Corporation, aided by a small group of not more than three men to serve with you as a Board of Directors, I think it desirable to state again the general policy which the Government proposes to pursue in handling the affairs of the Company.

Our program envisages the elimination of all things in General Aniline and Film Corporation representing control by German interests. These controls stemmed in the first instance from ownership of the corporation by I. G. Farbenindustrie which, in Nazi Germany, has been its staunchest bulwark and full partner. In dealing with its satellites outside of Germany, I. G. Farben developed an extensive and well-organized system of controls. Men were trained in I. G. Farben methods and techniques in the home office and plants. Some of these men were able technical men, others were younger sons of the dominant families within the organization, but all of them were men whose loyalty to I. G. Farben was unquestioned and none of them would have been appointed to such important industrial posts outside of Germany if such had not been the case.

As soon as they were trained they were sent to various countries where they were placed in key technical or administrative positions in companies within the I. G. Farben sphere of influence. They were encouraged to marry within the new country and acquire its citizenship, but they remained "I. G. Farben Men". Even after filling the key positions in this way other control techniques were employed. As recently as late in 1941 managerial policy was being dictated from Germany by transatlantic telephone, and until that year periodical official visits were

the settled rule. Option agreements of bewildering complexity reinforced or replaced control by share ownership. Cross-licensing agreements, control agreements and agreements for the exchange of patents and "know-how", implemented by frequent exchange of information cemented enduring ties. All of these methods were found to be present in General Aniline and Film Corporation.

The German-owned stock has already been vested in the Secretary of the Treasury. Furthermore, we have broken the lines of communication between the two companies in so far as they relate to the open exchange of information and "know-how", and we are and shall be dealing with the more obvious ways in which the operations of General Aniline have been controlled from Germany in the past. More difficult is the problem of Company personnel, and that is a matter which requires development somewhat in detail. An effective job of freeing the organization from German domination and control requires the elimination of the I. G. Farben men.

In practice, all persons of executive or managerial status who have been connected with I. G. Farben will have to be replaced as soon as possible by men unquestionably devoted to American ideals.

With regard to technical personnel of similar background, our objective may take longer to attain. Assuming that these men, or some of them, have such technical qualifications as would make their immediate dismissal impracticable from an operating standpoint, they will be retained under surveillance for so long as is required to obtain and train suitable substitutes for them. In determining the rate of effecting these changes I expect to rely heavily on the judgment of the management.

Persons of doubtful allegiance may also be found who do not have I. G. Farben backgrounds. These, too, will be eliminated. However, our program does not

- 3 -

involve the dismissal of employees simply because they are of German birth or extraction.

Of course, the whole program must be carried out with a view to maintaining, and wherever possible expanding, the operations of the Company whose products are so necessary in the war effort.

Will you please confirm to me your willingness to operate the affairs of the Company in a manner calculated to achieve the results hereinbefore outlined.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Robert E. McConnell,  
Middleburg,  
Virginia.

JJO'C:mdm  
3/7/42

2020120  
SALARIES & EXPENSES  
FOREIGN EXCHANGE CONTROL 1942  
Allet. 1-b

Washington, D.C.  
March 9, 1942

E. G. SHERBERT, PRESIDENT  
STANDARD OIL COMPANY (INDIANA),  
910 NORTH MICHIGAN AVENUE,  
CHICAGO, ILLINOIS.

WE HAVE TAKEN OVER OWNERSHIP OF GENERAL ANILINE & FILM CORPORATION,  
IMPORTANT CHEMICAL MANUFACTURING COMPANY FORMERLY CONTROLLED BY  
GERMANY AND URGENTLY NEEDED IN OUR WAR EFFORT. WOULD LIKE TO ELECT  
A BOARD OF TECHNICALLY TRAINED MEN WITH BUSINESS EXPERIENCE AND  
PARTICULARLY WANT YOUR DR. ROBERT E. WILSON. IT WILL REQUIRE HALF  
TO TWO-THIRDS OF HIS TIME FOR FIRST MONTH BUT NOT MUCH TIME AFTER.  
WE WILL PHONE YOU LATE TODAY OR TOMORROW MORNING REGARDING ACCEPTANCE  
WHICH I HOPE YOU WILL APPROVE.

(Signed) H. Morgenthau, Jr.

SECRETARY OF THE TREASURY

EMF:vls - 3/9/42



TREASURY DEPARTMENT  
 PROCUREMENT DIVISION  
 WASHINGTON

OFFICE OF THE DIRECTOR

March 9, 1942

## MEMORANDUM TO THE SECRETARY:

The following are a few observations made as a result of a preliminary study of the W. P. B. report of Russian Lend-Lease steel requirements received today.

1. The narrative report by commodities has been prepared to show an overall picture. The immediate concern is to make up existing deficiencies by April 1st as directed by the President, and our reports to you have been prepared on that basis. It is realized that the time is short, due for the most part to delays by the Russians in submitting requisitions. However, the President's request, likewise the purpose of Mr. Stettinius' visit to you, and your instructions emphasize exerting every effort to overcome existing deficiencies prior to April 1st on Protocol items, which is the objective.
2. The schedule which follows page ten in the report shows the Protocol commitment for the six months prior to April 1st as 294,120 tons. I have not checked that figure, but the next column shows the deficiency as of April 1st as 106,516 tons which takes credit for items other than those contained in the Protocol, and the actual deficiency is 175,693 tons, the total of items 25 to 41, crediting the excesses.
3. Evidently the W. P. B. Steel Group has used different classification for their report. For example, Steel Wire for which they show 26,713 tons allocated, of which 7500 tons are allocated for delivery by April 1st, whereas our records show receipt of allocation orders for 4202 tons. There may also be allocations which they have made which have not yet cleared through to us because the figures which they report do not reconcile with our record of actual allocations

FOR DEFENSE

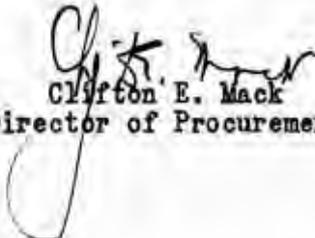


BUY  
 UNITED STATES  
 WAR BONDS  
 AND STAMPS

- 2 -

received in many instances, which will be checked further.

On page nine of the report it is stated that the deficit as of April 1st will be made up by April 30th. While the report goes into considerable detail, my reaction to it was that it was not responsive to the immediate problem of overcoming to the extent possible existing deficiencies of specific items by April 1st.

  
Clifton E. Mack  
Director of Procurement

Mr. W. W. Chauncey

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Feb. 23	Holiday			
24	-	-	-	-
25	-	-	-	-
26	-	-	-	-
27	-	-	-	-
28	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-

Sales from

Feb. 22, 1940

to Feb. 21, 1942 9,847,610-1/6 281,858,763 45,647,516 37,473,716

Sales from

Feb. 22, 1940

to Feb. 28, 1942 9,847,610-1/6 281,858,763 45,647,516 37,473,716

## INTER-OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Feb. 23	-	-	-	
24	-	-	-	
25	-	-	-	
26	-	-	-	
27	-	-	-	
28	-	-	-	
	<u>-</u>	<u>-</u>	<u>-</u>	
	-	-	-	
Sales from				
Feb. 22, 1940 to				
Feb. 21, 1942	<u>281,858,763</u>	<u>37,473,716</u>	<u>319,332,479</u>	
Sales from				
Feb. 22, 1940 to				
Feb. 28, 1942	<u>281,858,763</u>	<u>37,473,716</u>	<u>319,332,479</u>	319,332,479
\$ proceeds of non-vested securities sold				
Feb. 16, 1942 - Feb. 21, 1942			500,000	
\$ proceeds of non-vested securities sold				
Sept. 1, 1939 - Feb. 14, 1942			243,100,000	
\$ proceeds of non-vested securities sold				
Sept. 1, 1939 - Feb. 21, 1942			<u>243,600,000</u>	<u>243,600,000</u>
			<u>GRAND TOTAL</u>	<u>562,932,479</u>
Jan. 7, 1942 - Cash Dividend on 156 Shares			\$	61
Jan. 9, 1942 - Partial Liquidating Dividend				125
9 Units sold from Aug. 18, 1941 - Feb. 14, 1942				42
11 Shares Stock Dividend sold Aug. 18, 1941 - Feb. 14, 1942 for				123
50,007 Rights sold from July 24, 1941 - Feb. 14, 1942 for				102,938

Miss Chaudozy

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Feb. 16	-	-	-	-
17	-	-	-	-
18	-	-	-	-
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-

Sales from Feb. 22, 1940 to Feb. 14, 1942	<u>9,847,610-1/6</u>	<u>281,858,763</u>	<u>45,647,516</u>	<u>37,473,716</u>
---	----------------------	--------------------	-------------------	-------------------

Sales from Feb. 22, 1940 to Feb. 21, 1942	<u>9,847,610-1/6</u>	<u>281,858,763</u>	<u>45,647,516</u>	<u>37,473,716</u>
---	----------------------	--------------------	-------------------	-------------------

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

For Miss Chauncey

DATE March 9, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Feb. 16	-	-	-	
17	-	-	-	
18	-	-	-	
19	-	-	-	
20	-	-	-	
21	-	-	-	
	-	-	-	
Sales from Feb. 22, 1940 to Feb. 14, 1942	<u>281,858,763</u>	<u>37,473,716</u>	<u>319,332,479</u>	
Sales from Feb. 22, 1940 to Feb. 21, 1942	<u>281,858,763</u>	<u>37,473,716</u>	<u>319,332,479</u>	319,332,479
\$ proceeds of non-vested securities sold Feb. 9, 1942 - Feb. 14, 1942			200,000	
\$ proceeds of non-vested securities sold Sept. 1, 1939 - Feb. 9, 1942			<u>242,900,000</u>	
\$ proceeds of non-vested securities sold Sept. 1, 1939 - Feb. 14, 1942			<u>243,100,000</u>	<u>243,100,000</u>
			GRAND TOTAL	<u>562,432,479</u>
Jan. 7, 1942 - Cash Dividend on 156 Shares				\$ 61
Jan. 9, 1942 - Partial Liquidating Dividend				125
9 Units sold from Aug. 18, 1941 - Feb. 14, 1942				42
11 Shares Stock Dividend sold Aug. 18, 1941 - Feb. 14, 1942 for				123
56,007 Rights sold from July 24, 1941 - Feb. 14, 1942 for				102,938



DEPARTMENT OF STATE  
WASHINGTON

STRICTLY CONFIDENTIAL

March 9, 1942

My dear Mr. Secretary:

I refer to your request for my comment in regard to the proposed agreement to extend financial aid to China pursuant to Public Law 442, approved February 7, 1942, and Public Law 452, approved February 12, 1942.

The matter is, of course, one with regard to which responsibility lies primarily with you and the President. In my opinion, retention of Article II of the draft originally presented to Dr. Soong or an exchange of letters along the lines thereof would serve useful purposes both for the Chinese Government and for this Government. I believe that such a provision would be reflective of the cooperative spirit which underlies the common war effort of the two countries and might be of some assistance to the Chinese Government in resisting pressure from any group in China which might advocate an unwise use of any part of the funds made available.

Realizing

FOR DEFENSE



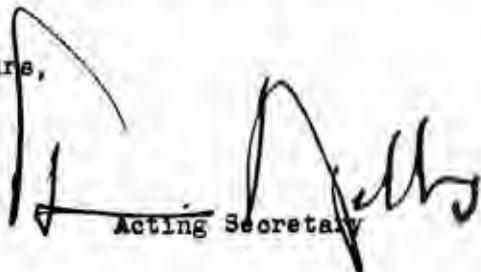
BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND  
STAMPS

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

-2-

Realizing that you have considered both the economic and the political angles of the problem, I am prepared, in view of the opinion which you have expressed orally that the adoption of the Chinese Government's suggestions would be satisfactory, to concur in the conclusions at which you arrive and the course which you propose.

Sincerely yours,



Acting Secretary

THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

March 9, 1942

MEMORANDUM FOR THE SECRETARY:

Attached is a photostat copy of a letter we received today from Under Secretary Welles on the question of eliminating Article II from the draft of agreement we originally presented to Dr. Soong. In Dr. Soong's letter of March 3, 1942, he stated that the Generalissimo had raised the following point with respect to Article II:

"Reactions in Chungking as to Article II appear to be that the U. S. Government will in some way pass judgment on the uses to which the Loan may be put, and thereby limits in some degree the freedom of making disbursement.

"As China in any case would like to keep the Secretary informed, and as the Secretary has in the past without any agreement always exerted himself on every occasion to help China, he suggests that Article II is unnecessary, since it makes of such voluntary acts mandatory. He therefore hopes that Article II may be dropped."

In line with our conversation a few days ago we agreed among ourselves to drop out Article II. Representatives of the State Department were present and while they thought that Article II was desirable, they indicated their general approval or at least we thought they did. We do not feel that we can let the letter of Under Secretary Welles' stand on the record so we have drafted a reply which is also attached.

In view of the urgency of this matter, I am sending this to your house.

*sub*

FOR DEFENSE



THE SECRETARY OF THE TREASURY  
WASHINGTON



STRICTLY CONFIDENTIAL

My dear Mr. Welles:

I have your letter of March 9, 1942, expressing your opinion that it would be desirable to retain in the Agreement Article II of the draft first presented to Dr. T. V. Soong.

It is my view that the decisive considerations governing the \$500 million financial aid to China, as well as the desirability of retaining provision for consultation and exchange of information, are political in character.

From the point of view of protecting the financial interests of the United States and of safeguarding the most effective economic use of the financial aid, the retention of Article II would be desirable. However, the Treasury was unwilling to take the responsibility of seriously affecting the great political and psychological value of this financial aid by insisting upon the inclusion of this provision in view of the reactions of Generalissimo Chiang Kai-shek, as indicated in the letter from Dr. T. V. Soong to this Department.

I construe your letter to mean that you believe that from a political point of view the retention of Article II is desirable. Accordingly, unless you advise me to the contrary, I propose to reply to Dr. Soong that, after having taken the matter up with the State Department,

FOR DEFENSE



- 2 -

it is the view of this Government that Article II should be retained in the Agreement since it is "reflective of the cooperative spirit which underlies the common war effort of the two countries and might be of some assistance to the Chinese Government in resisting pressure from any group in China which might advocate an unwise use of any part of the funds made available".

Since I feel that the time is of essence and that we should consummate this agreement without delay, I would appreciate an answer from you on this matter as soon as possible.

Sincerely yours,

Secretary of the Treasury.

The Honorable Sumner Welles,

Under Secretary of State.

DEPARTMENT OF STATE  
WASHINGTON

STRICTLY CONFIDENTIAL

March 9, 1942

Dear Mr. Secretary:

I refer to your request for my comment in regard to the proposed agreement to extend financial aid to China pursuant to Public Law 442, approved February 7, 1942, and Public Law 452, approved February 12, 1942.

The matter is, of course, one with regard to which responsibility lies primarily with you and the President. In my opinion, retention of Article II of the draft originally presented to Dr. Soong or an exchange of letters along the lines thereof would serve useful purposes both for the Chinese Government and for this Government. I believe that such a provision would be reflective of the cooperative spirit which underlies the common war effort of the two countries and might be of some assistance to the Chinese Government in resisting pressure from any group in China which might advocate an unwise use of any part of the funds made available.

Realizing

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

Realizing that you have considered both the economic and the political angles of the problem, I am prepared, in view of the opinion which you have expressed orally that the adoption of the Chinese Government's suggestions would be satisfactory, to concur in the conclusions at which you arrive and the course which you propose.

Sincerely yours,



Acting Secretary

DEPARTMENT OF STATE

145 ✓

Washington

In reply refer to  
FD

March 9, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of an excerpt from a telegram dated March 6, 1942, from the American Ambassador at Chungking, China.

Enclosure:

From Embassy, Chungking,  
an excerpt, March 6, 1942.

eh: copy  
3-9-42

EXCERPT FROM TELEGRAM FROM CHUNGKING, DATED MARCH 6, 1942

"In the economic finance field, interest has centered around the large American and British credits, granted to China in February and the manner in which they will be employed. Currency inflation, with resultant price rises, hoarding, and speculation continue to be a major concern. A 'commodities administration' has been established with a view to stabilizing prices and attacking the hoarding situation. A new land administration has been set up ostensibly as a preparation for dealing with land problems. Past experience does not make for optimism with regard to the success of these organizations, but there is some reason for hope that in present circumstances they may attack the problems more resolutely. There are indications that the American credit might be effectively employed as an aid toward solving these problems and to stimulating production of consumption goods as well as to attack the currency inflation situation."

eh:copy  
3-9-42

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 9, 1942

TO Secretary Morgenthau.

FROM Mr. Dietrich

## CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 29,000
Purchased from commercial concerns	£115,000

Of the sterling purchased, £100,000 was reported to have represented the proceeds of the export of burlap from this country to Canada.

Open market sterling remained at 4.03-3/4, with no reported transactions.

The Canadian dollar discount widened to 11-11/16%, as compared with 11-1/2% on Saturday and 11-3/4% a week ago.

Reflecting a slight change in the rates received from Mexico City, the New York bid and offered quotations for the Mexican peso were .2050 and .2064, respectively, as compared with the quotations of .2055 and .2065 which have prevailed since last December 9.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Venezuelan bolivar	.2800
Uruguayan peso (free)	.5295
Cuban peso	7/32% premium

We sold \$3,988,000 in gold to the Central Bank of the Argentine Republic, which was earmarked for its account.

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.

Copy No. 12

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 80

Information received up to 7 A.M., 9th March, 1942.

1. NAVAL

FAR EAST. No news has been received from the following ships and it is presumed that they are lost: 2 H.M. Cruisers, 2 destroyers, 2 sloops and a base ship. One of H.M. Cruisers has arrived safely in port.

One of H.M. trawlers was sunk by mine or torpedo south of ICELAND (C) on the 3th. It is now known that a British tanker of medium tonnage, a 9000 ton British merchant vessel and a small Norwegian ship were lost in the Java area. A 7000 ton British Merchant ship was torpedoed on the 23rd February in outward convoy far out off Newfoundland.

2. MILITARY.

Libya. 7th. Some increased enemy activity in Tairi area. Enemy armoured cars withdrew after being engaged by one of our infantry columns in the area ten miles southwest of Tairi.

Burma. No military report received.

New Guinea. No news of a Japanese landing at Salamaya beyond the published report. Air reconnaissance on 5th showed 20 merchant ships at anchor at Rabaul (New Britain).

3. AIR OPERATIONS.

Western Front. 8th. A total of 24 Bostons were sent to attack a power station at Comines. The railway centre, Abbeville and the Hatford factory near Paris. Hits were seen on the two latter targets. About 400 fighters carried out offensive operations or escorted the bombers. Enemy defensive patrols involved about 150 aircraft. 2 enemy fighters were destroyed and 6 damaged. We lost 3 Spitfires and one Boston.

8th/9th. 265 aircraft, including 62 heavy bombers, were sent out. Bases 210. Havre 12. Ostend 6. Aerodromes 21. Sea-mining 15. Preliminary reports indicate that the attack on Essen was successful. 8 aircraft are missing. About 50 enemy aircraft operated against this country mainly off the east coast. Night fighters destroyed 1 and damaged another.

Libya. 6th/7th. Wellingtons bombed Benghazi and laid mines in the harbour. One small vessel was destroyed.

Malta. 7th, 7th/8th and 8th. A total of about 150 aircraft attacked with Luqa as main objective. 4 Wellingtons and one Beaufighter were damaged.

Regraded Unclassified

- 2 -

Burma. 6th. Our Divisional Headquarters, 20 miles S.E. of Rangoon was heavily bombed and machine-gunned.

7th. Our fighters gave continuous protection to our troops during their withdrawal from Rangoon and to shipping evacuating demolition parties and civilians.

Java. 5th. The last Allied fighters were destroyed in repulsing an attack north of Bandung.

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



March 9, 1942

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

Dear Henry:

The attached is a summary of  
opinion trends in occupied France and is  
based upon reliable and secret information  
which has come to us.

Sincerely,

*Bill*  
William J. Donovan

Enclosure

SECRET

The French were tremendously depressed over the fall of Singapore and the escape of the German battle-ships, but the parachute raid on the French coast by the British had a heartening effect out of all proportion from military significance. A flood of rumors of imminent Anglo-American invasion of the Continent were unloosed.

The already pro-British feeling was stimulated by the Billancourt raid. However, it gave German propaganda an occasion to exploit the accusation of indiscriminate action against civilians by the RAF. This caused widespread ill feeling, especially in such coastal areas as Bordeaux and Le Havre.

Because of increasingly successful radio jamming few people in Paris are aware of Japanese shipping losses. The listeners want only news and are averse to talks.

A great deal of latent feeling over France's future was brought out at the Riou trials. This brought to light intense and widespread attachment to the idea of a Republic which conceived however as different from Third Republic. A strong emotional hold is had on large sections of people with such words as "liberate".

Because of fear and the effect of French opinion of a break between Vichy and Washington and because of American pressure, it is generally felt that Vichy is trying to avoid sending supplies to Rommel.



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

March 9, 1942

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

Dear Henry:

The attached is a report on German  
home propaganda.

Sincerely,

*Bill*  
William J. Donovan

Attachment

153

The Far East is still subordinated to Russia in German Home Propaganda which takes the line "England can no longer do anything to us. The British Empire is being taken care of by Japan. Germany's only serious enemy is Russia and when she is beaten the rest will be easy though not of necessity short." There is no longer a ban on stating that in certain parts of the Eastern Front the German position has been "dangerous." The impression is given that the German troops have almost entirely been on the defensive, but in spite of incredibly bad weather conditions they have repelled all "tough and vigorous Soviet attacks, all tasks mastered", Russians claim advances "absurd". In prophesying the results of the coming spring offensive, great caution is being displayed.

Churchill is personally and consistently blamed for the "irretrievable loss" of the British Far Eastern possessions and the "grim hopelessness" of the allied position. The role of America is minimized as "too weak to help". Much less talk is devoted to Japan, but 1/5 is all news.

Much greater prominence is given to the Japanese and German sinkings of allied shipping in the Atlantic and Pacific. Production in America is belittled, inadequate to replace the huge losses and "propaganda bluff".

- 2 -

The report of Petain's Comment on Billancourt raid was given in such a way as to make it appear that he was accusing the British openly of a cowardly attack worse than Mers-el-Kebir.

Norwegian news was wholly suppressed including the resignation of the Norwegian bishops.

There is no increase in general home morale in spite of the successes of the Japanese. There is a strong suggestion of a drop in morale among the officers--supplying upper middle classes of East and North Germany.

As the majority of the people are so strained, they haven't the power to concentrate and absorb exacting programs, Goebbels advised the film industry to concentrate on producing relating entertainment.

**SECRET**

CLASSIFICATION

8

155

**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE March 10, 1942

TO Secretary Morgenthau  
 FROM Mr. Kamarck  
 Subject: Summary of Intelligence Reports

Japanese Attack on Russia

According to the French Ambassador at Tokyo, the Japanese High Command is planning an attack on Siberia in April to synchronize with the anticipated Nazi drive against Russia.

(C.O.I., "The War This Week," February 26-March 5, 1942)

Distribution of Japanese Army

	<u>Divisions</u>
Opposite Siberia	25
South Seas:	
Java	8
Rest of Indies and Malaya	3
Philippines	5
Thailand and Burma	4
New Britain (threat to Australia)	2
Total South Seas	22
China	16 (plus independent brigades)
Japan	9
Grand Total (2-1/4 million men, 2,800 tanks)	72

(C.O.I., "The War This Week," February 26-March 5, 1942; M.I.D. Situation Map, March 9, 1942)

Reasons for Japanese Victory in Malaya

General Wavell summarized the following factors as being responsible for the Japanese victory in Malaya:

1. Previous war experience of the Japanese troops.
2. Good discipline and high morale of the Japanese soldiers.
3. A high standard of Japanese training for the campaign.
4. The possession of tanks by the Japanese.
5. Japanese superiority in the air.

There is a strong probability that the divisions used in the Malayan expedition were the crack divisions of the Japanese army. (This list is revealing in giving a picture of what actually happened. The British troops were not primarily defeated because they had no tanks and few planes, although lack of these did contribute to the defeat. They were beaten because the Japanese did a better job. Tanks and airplanes are not as important in jungle fighting as in ordinary warfare.)

(M.I.D., Information Bulletin Number 9)

Finland

Tanner, Finnish Minister of Commerce, recently made a speech in which he stated that since there had been no military activity for three months, none need be anticipated. The Censor suppressed the address, but not before the release of it by one paper had caused wild rejoicing among the Finnish troops.

Desertion is becoming common. Finnish troops are reported to be disappointed at finding that the inhabitants in the areas conquered by Finland are not Finns yearning to be free, but rather tough enemies.

(C.O.I., "The War This Week," February 26-March 5, 1942)

German Navy

(There have been a large number of alarmist rumors about the size of the German Navy. The following is the list of German warships, according to the British. This is accurate, I believe. In the last war, without the highly developed aerial reconnaissance of the present day, the British always had an accurate picture of German naval strength. In this war, concealment of a major naval unit on the part of the Germans is well-nigh impossible.)

Battleships

Tirpitz, (35,000 tons.)

No sister ships are under construction. (Evidently, construction of ships "H" and "I", originally planned to form with the Bismarck and Tirpitz a battle-line of four ships, has been abandoned.)

Battle Cruisers

Gneisenau, (26,000 tons)  
Scharnhorst (26,000 tons)

Pocket Battleships

Luetzow, (10,000 tons)  
Admiral Scheer, (10,000 tons)

Heavy Cruisers

Hipper, (10,000 tons)  
Prinz Eugen, (10,000 tons)  
One under construction

Light Cruisers

Four light cruisers (8,000 tons and under)

Aircraft Carrier

Graf Zeppelin

(British Ministry of Information, March 6, 1942)

## VOICE OF THE CHIEF BROADCASTS

Rommel

(General Erwin Rommel is described as a man whose vanity and ambition know no bounds.) "What sent the S.S. strategist to Rome, is not the welfare of his troops. It is the welfare and career of Herr Erwin Rommel. He wants to get the supreme command over the Mediterranean region, with all German and Italian land and sea forces and the air force under Field Marshal General von Kesselring under his brilliant leadership.

"It is that same pernicious illusion of grandeur which led Rommel to leave two valuable divisions with all equipment in Bardia and Halfya to their fate. Rommel imagined he could always get them out again.

"Rommel, with his excellent connections to Himmler the Almighty, promised the Italians German tanks, planes, U-boats. Those promises are akin to the lies he has told his own troops. To instill them with the wrong kind of courage, he pretended that Moscow had fallen, that the Russian campaign was as good as finished. These are the methods employed by a man who was not even sent to a war academy before an army was entrusted to him.

"Rommel was able to redeem himself in Libya only by the fact that reinforcements of tanks and planes were sent to him after being taken away from the Eastern front, thereby upsetting the immeasurably more important offensive against the Russians."

The S.S. in Russia

(The Chief devotes an entire broadcast to the refusal of Gestapo Chief Himmler and his "shyster group leaders to gamble any more of his costly S.S. formations in the dangerous enterprises at the front. The fighting and dying is left exclusively to the Wehrmacht while the S.S. get their special training by the perpetration of cruelties against prisoners, civilians and disarmed masses."

"A unit of Field Marshal von Bock's army, holding a sector near Lodowaya, had lost 135 officers and 2,700 men. There was danger of the enemy breaking through in that sector. Field Marshal von Bock was unable to move up his reserves. It looked dangerous and only a swift and unusual decision could have saved the situation."

"The only non-combatant formation in the immediate vicinity was the 131st S.S. police regiment. The Field Marshal personally got in touch immediately with the commander, Von Bach-Stalewski, at Moghilev, and requested the services of that regiment: Von Bach-Stalewski was merely to pinch-hit until von Bock's own reserves could arrive. Suddenly, von Bach-Stalewski became hard of hearing and made evasions: he said his regiment had neither artillery nor tanks and therefore could not fight. In conclusion, he promised to come to headquarters and talk matters over. But Field Marshal von Bock needed no Bach-Stalewski at his headquarters. What he needed was a regiment at the front. And at once. After a short decision, the Field Marshal got in touch with General Deluege (Commander in Chief of the S.S. police troops) and two hours later, the police regiment received the order to move up.

"Unfortunately, this occurred too late. The enemy had already broken through and was advancing in the direction of Pavlograd. The S.S. regiment got a thorough thrashing. Here, they had to shoot at Russians -- who were neither disarmed nor prisoners of war. There were a couple of old sergeants. Those fought bravely. But the rest of the S.S. leadership balks description. In the heat of the battle, the S.S. regimental commander and his A.D.C. vanished, presumably to report in person to their General on the situation. These should have been shot outright! If it only were possible to get S.S. men of such caliber before a court martial!

"Lodowaya was lost, and Pavlovach, too, went to the dickens. The whole damned thing had to be retaken later. This, to be sure, was quite immaterial to Von Bach-Stalewski. But that his proud 131st regiment had been battered into smithereens, he could not get over. He made quite a stink over it. Now he calmly takes the cure for his gallstones. As for the Fatherland, here we have one more proof of the willingness of the S.S. Bolsheviks to do their part at the front."

(Foreign Broadcast Monitoring Service, Federal Communications Commission, March 9, 1942.)

March 10, 1942

Mr. Duffus  
The Secretary

What would you think of Al Jolson as a  
community song leader? Let me know by memo,  
and send the memo direct to Mrs. Klotz, please.

Duffus will  
write to see if  
interested in  
3/13.

3/13 -  
Mrs. Duffus chatted  
with Mrs. Klotz on the  
phone -

March 10, 1942

Lieutenant Stephens

The Secretary

Please call up Senator Harry Byrd's secretary and ask him when he's going to have the next meeting of his Economy Committee, of which I'm a member.

Fitzgerald phoned.  
meeting starts at 10

March 10, 1942  
10:25 a.m.

HMJr: Hello.

Sumner  
Welles: Good morning, Henry.

HMJr: How are you?

W: Fine, thanks.

HMJr: Look, Sumner, I have your letter before me in regard to the Chinese.

W: Yeah.

HMJr: Now, in the sentence, taken by itself, that says, "In my opinion, the retention of Article two of the Draft originally presented to Dr. Soong are along the lines which serve useful purposes." See?

W: Yeah.

HMJr: Well, I don't know whether you intentionally or not, but that puts the State Department on record that they think that that should be in. Do you know what Article two is?

W: I wouldn't have written the letter unless I'd known what was in it.

HMJr: Well.....

W: Certainly I feel that way.

HMJr: You feel that way.

W: Why, surely. I think it would have been a much sounder document, but since the.....

HMJr: All right. Well, then, you - as long as you feel that way, you take full responsibility then for throwing down what Chiang Kai-shek wants.

W: No, I don't take any responsibility for throwing anything down. As I said in my letter, I think

- 2 -

the responsibility in this financial transaction clearly is the President's and particularly yours as Secretary of the Treasury.

HMJr: Yeah, but you're making a record for yourself.

W: I'm not in the habit of doing that.

HMJr: Well, I was trying to approach it in a friendly fashion, otherwise - I've got a letter written that I can throw back - it's just as smart as the letter that you've written, almost as smart.

W: Well, Henry, I'm not in the habit of trying to write smart letters. After all, in nine years' experience with me, I don't think you have any reason to say that.

HMJr: Well, I distinctly feel - I mean - to that what this letter is, and if you want to leave it that way, that's all right, and.....

W: I think it would in the long run - I think the arrangement probably would have worked out better if we'd suggested to Chiang Kai-shek that some arrangement for consultation with you would have been wise.

HMJr: You know, I called you up on the phone and put you on notice how your own people felt; and then I said that I thought it would be much better to take it the way the Chinese wanted it, and you said, "Yes, I think - I agree with you."

W: Well, I thought, of course, when you were speaking on the telephone, Henry, that you were referring to the general draft of the agreement that had been sent in.

HMJr: Oh.

W: You see, I didn't get your letter when you promised it at two o'clock, and I didn't have a chance to see it until early Sunday morning.

HMJr: Well, Bell said he'd have it over there at two. I don't know when it got over there.

- 3 -

W: I think it came over about - they told me about seven o'clock, so I didn't have a chance to see the.....

HMJr: Well, all I know is that Bell said he'd have it there at two.

W: Yeah. Well, it wasn't here, so I didn't have an opportunity of considering it until Sunday; and in going over it.....

HMJr: Well, that has nothing - that wouldn't make any difference if it got there at two or at seven, I mean, as far as this letter is concerned.

W: Well, if I'd had the opportunity of studying it on Saturday afternoon, I could have probably have had an opportunity of talking with you personally about it; but since you wanted the reply early yesterday morning, Monday, with the other things that I have on my hands it's not possible to give as much time as I should like to.

HMJr: Yeah.

W: But I think the general arrangement contained in Article two to which you refer, was a much easier way for us to work it out with a view to the future. After all, neither you nor I know whether Chiang Kai-shek is going to be murdered tomorrow and whether somebody else is going to step into his place. If that happens, we have absolutely no assurance whatever as to the disposition of those funds.

HMJr: Oh, as Secretary of the Treasury, I'd like to have all kinds of safeguards; but the spirit under which the thing was undertaken, I thought we were going to try to please them as much as possible.

W: Well, I thought, Henry, that if you had sent back a message to Chiang Kai-shek, possibly re-phrasing Article two so that there would be some provision for consultation with you in the future, that probably it would have been a better and a wiser procedure; and that is the reason that I suggested that.

- 4 -

HMJr: Do you want.....

W: After all, so far as I can understand, the only reason for this tremendous urgency is the anniversary on Thursday; and that doesn't seem to me a sufficiently important reason to jam it through quickly without at least making the effort to give you some opportunity for wise advice as to the disposal of those funds.

HMJr: But you want your letter to stand.

W: What I'm anxious to do is to try, if possible, and get that provision amended so that there is some opportunity for cooperation with you in the future on the part of the Chinese Government.

HMJr: I say you want your letter to stand.

W: I don't want it to stand at all so long as the arrangement can be worked out.

HMJr: Well, of course - I mean, with your letter, it leaves me nothing else to do but to follow what you've said, and that's what I'm going to do.

W: Well, don't you think it's wise to try and get them to agree to some provision for cooperation and consultation?

HMJr: Well.....

W: Every other arrangement that we've made with every other government has had something of that kind in it.

HMJr: Well, but this loan is unique.

W: Certainly it's unique. I quite agree with you.

HMJr: And in testifying before the Senate, I told them - in the House they said, "How much could we get back?" I said, "You start with zero, and anything above that would be your own guess."

W: Well, I think that's a perfectly fair statement.

- 5 -

I think it's a political loan, naturally.

HMJr:

Yeah.

W:

I quite agree with you, and I certainly would rather go ahead with it on the basis you now have it than not go ahead at all; but if sending back a friendly message saying that you feel that it would be helpful to have some cooperative arrangement inserted there if you can get it, I think it would be a better document than it now is.

HMJr:

Oh, no question about it; but on the other hand, if it irritates Chiang Kai-shek and - seriously - then the whole loan might not as well be made.

W:

Well, we haven't even tried, have we?

HMJr:

Oh, yes. The original we gave - we gave an original set of copies of the papers to Soong.

W:

Then Soong wrote back saying that Chiang Kai-shek would prefer to have that omitted.

HMJr:

That's right.

W:

But I don't think that you sent any personal message to Chiang Kai-shek from this Government, saying why you thought it would be desirable to retain something of that kind in it.

HMJr:

No.

W:

That was what I wanted to suggest.

HMJr:

No. Well, I'll answer your letter and then you people can give us a suggestion what the next step should be.

W:

Well, I've already just told you what I think the wise thing to do would be, and that is to either do it through Soong or direct to Chiang Kai-shek, suggesting that there be some rephrasing of that so as to provide for some measure of cooperation on your part.

HMJr:

Well, will you have something drafted for me?

- 6 -

W: I'd be delighted to, Henry.

HMJr: All right.

W: Now, do you want me to wait for your letter,  
or send it over without waiting?

HMJr: You'd better wait for my letter.

W: All right.

HMJr: Thanks.

W: All right, Henry, thanks.

March 10, 1942  
11:00 am

AID TO CHINA

Present: Mr. Bell  
Mr. White  
Mr. Viner  
Mr. Bernstein  
Mr. Southard

H.M.JR: I read this correspondence here with Welles, and then I called him up on the phone and had quite an acrimonious discussion with him. I asked him if he knew what Article Two was. He said, "I supposed I had put it in." I said, "Well, of course, you have written me a smart letter, and I don't know that we can write you a smarter one, but do you really want this to stand on the record?" So he said, "Yes, yes, I think it is important," so I said, "Well, I called you Saturday, and you agreed to leave it out." He said, "Well, you said you would have a letter over too, and it never got here until seven." I said, "Well, Bell told me he would have it there at two. I didn't have a chance to study it."

MR. BELL: It wasn't seven, but it was three thirty.

MR. BERNSTEIN: In the middle of the afternoon. Three thirty.

MR. BELL: At three thirty Bernie was in my office and said that the letter had just gone over.

H.M.JR: "Well, anyway," I said, "what difference does that make?" "Well," he said, "what makes you think that you can't get them to agree?" I said, "Well, I thought the whole idea - you know they don't want to, and why take a risk at this time?" So he said, "Well, we can send back a message suggesting a few changes

- 2 -

and so on." I said, "Well, fix it up." He said, "Well, do you want me to fix it up now, or wait until I get your letter?" I said, "You had better wait until you get my letter." I said, "If you want to make a record--" He says, "We are not trying to make a record," and I said, "Well, I think you are; and if you are trying to make a record, as Secretary of the Treasury naturally I want all the safeguards, but I thought we were trying to please General Chiang Kai-shek." I said, "I thought that was the whole purpose." So I suppose there isn't much left for me to do but to send this letter and then just add a P.S. I would be glad to receive suggestions from you on what we do next." Of course, the thing that bothers me is, here between the State Department and ourselves we get into a two-by-four row, and their attitude is, to hell with Chiang Kai-shek, it is to see which fellow can be the smarter.

MR. BELL: It really wasn't a row at all, and I was quite surprised to get that letter, because I thought that when they left our conference the other day that while they preferred to have Section Two in, they thought the situation justified our going ahead.

MR. SOUTHARD: Mr. Bell, as it turns out Mr. Hamilton's performance at the meeting was in part - it was his performance - it was one in which he was right either way it went. He told you he thought Two should stay in, but then he just passively agreed that all right, it could stay out.

MR. WHITE: There is another alternative, Mr. Secretary.

H.M.JR: Well, there isn't much alternative now.

MR. WHITE: A different kind of letter. He hasn't seen that letter.

H.M.JR: No, no. "I have your letter of March 10 expressing your opinion that it would be desirable to retain in the Agreement Article Two of the draft first presented to Soong."

- 3 -

"It is my view that decisive considerations governing the five hundred million as well as the desirability of retaining the provision for consultation and exchange of information, are political in character.

"From the point of view of protecting the financial interests of the United States and of safeguarding the most effective economic use of the financial aid, the retention of Article Two would be desirable. However, the Treasury was unwilling to take the responsibility of seriously affecting the great political and psychological value of this financial aid by insisting upon the inclusion of this provision in view of the reactions of Generalissimo Chiang Kai-shek, as indicated in the letter from Dr. T. V. Soong to this Department.

"I construe your letter to mean that you believe that from a political point of view the retention of Article Two is desirable. Accordingly, unless you advise me to the contrary, I propose to reply to Dr. Soong that, after having taken the matter up with the State Department, it is the view of this Government that Article Two should be retained --" No, I would stop there. I would stop right here and say, "In view - from T. V. Soong to this Department," then a new paragraph, and simply say, "In the light of our telephone conversation, I would be very glad to receive suggestions from you as to how to proceed from this point." You see, "In the light of our telephone conversation, I would be very glad to receive suggestions from the State Department how we should proceed." You can say, "In the light of the political nature of this loan and in view of our telephone conversation, I would be glad to receive suggestions. In the light of the political nature of this loan - " have you said that it is political?

MR. BERNSTEIN: We can work that out, Mr. Secretary. I think we have your idea clearly enough.

H.M.JR: He said, "We can redraft Article Two, you see, and go back to Chiang Kai-shek again." Well, I simply want to say, "In view of the light of your - will

- 4 -

you suggest to me what you - what the State Department would like to see us do next?"

MR. WHITE: Does that leave that paragraph in in which you say, "We would like as much financial protection as possible"?

MR. SOUTHARD: The essential part is left in, and you have said the other in your telephone conversation, after all. You have already said orally the harsh stuff at the end.

H.M.JR: I have said that. I simply said, "You tried to pull a fast one on us. In nine years I have never tried to do that." "Well," I said, "all right, you people want it in, and you say that you think we could go back to Chiang Kai-shek again - " you can get my conversation. You had better get my conversation, you see.

MR. WHITE: Well, I think it is true that the inclusion of that part in the letter makes this a smart letter. I think you are quite right; and if you leave that part out, and merely ask them specifically for-- suggestions, is it, you are asking for?

MR. BELL: How to proceed from this point.

H.M.JR: Now, he said over the phone, "You will see - we can go back to him - " He said, "You haven't tried to go back to him again." I said, "No, because I thought that that was the whole purpose of the loan, and I didn't want to risk this thing." He said, "Well, you have always had protection before." I said, "This loan is unique." If I say so, I think I was pretty good. I mean, he got mad, and the surprising thing is, you see, where I have a little advantage over these fellows, I very rarely get mad these days. The only trouble is that when I get mad, I get results, and it is very bad for me, Bernie. I get mad, and then Bernie does me a beautiful job, and I say, "Well, that is the way to get it," but the other day at

- 5 -

Cabinet I was amazed at Welles. In a very quiet way Henry Wallace said something about some planes in South America and that Rockefeller has consulted with Welles. Welles said, "It isn't so." So the Vice-President was very firm. He said, "Sumner, Rockefeller says he positively has." "It absolutely is not so," to the Vice-President. The Vice-President said, "I am sorry, there must be some misunderstanding." And he said it three times like that. In other words, his nerves were like Donald Nelson's the other day. They are beginning to go.

MRS. KLOTZ: But toward the end he was very sweet.

H.M.JR: He got worried. So I think this. We can write the thing, asking them what we should do next. If you people will come in about two thirty, I will be ready for you. Anybody question my procedure?

MR. SOUTHARD: It sounds excellent.

H.M.JR: Anybody question it? Bernie?

MR. BERNSTEIN: No, I think it is fine.

H.M.JR: Now if after all they want to go back - he said they are going to redraft Article Two and send it back--

MR. SOUTHARD: It is their responsibility.

H.M.JR: It is their responsibility, and he has asked it.

MR. SOUTHARD: And it should be their responsibility. That is the whole point.

H.M.JR: Well, this is a very tricky thing. "The matter is, of course, one with regard to which responsibility lies primarily with you and the President. In my opinion retention of Article Two in the draft presented to Dr. Soong should be left in."

- 6 -

MR. BERNSTEIN: And then on the next page, they said you had considered the economic and political aspects.

H.M.JR: I said, "Look, Sumner, you just lift this one sentence out and let it stand by itself, and there is nothing left for me to do, and I am just as anxious as you are, as Secretary of the Treasury, to have protection, but I am also more interested in pleasing Chiang Kai-check."

MR. BELL: That will look beautiful ten years from now.

MR. SOUTHARD: That is a perfect letter for that purpose.

H.M.JR: Well, he is trying to make the record so we go back--

MRS. KLOTZ: That is what you said to him, he is trying to make a record.

H.M.JR: And that is what he got angry about. I think we can use this first part and simply say, "In the light of our conversation, we would be very glad to receive suggestions from you as to how we should proceed from here."

MR. WHITE: With a phrase that we fully appreciate that we need to act very quickly.

MR. BELL: Soong is calling me this morning. I haven't called him back.

H.M.JR: Oh yes, in the thing he said, "What is the use?" Just because they have a holiday on Thursday, "What is the use of hurrying?"

MR. BELL: Gosh, they have lost Rangoon. I should think it would be pretty important.

H.M.JR: All right, put in something about - you can say, "I feel that no time should be lost."

- 7 -

MR. WHITE: That is right. After all, this is already--

H.M.JR: I would say, "I feel that no time should be lost."

MR. WHITE: Chiang Kai-chek has given his answer over ten days ago.

H.M.JR: Now, I keep this. Have you people got the stuff? This is for my record. Now, don't "yes" me.

MR. SOUTHARD: Oh, no.

H.M.JR: Because, after all, we are talking about the whole Chinese-Indian situation, gentlemen. Bernie, the Chinese-Indian situation is what we are playing for, and I am perfectly willing to crawl on my hands from here to the State Department if I could save China and India.

MR. SOUTHARD: That was the only question that came up in our minds yesterday, what would happen if the State Department insisted on keeping Article Two in. Wouldn't we then be willing to do it.

MR. BELL: Well, we are just as anxious as they are, Mr. Secretary, to have Article Two, but we had to bear in mind all of this situation over there, and that is the reason we didn't want to ask Soong.

H.M.JR: Well, that is what they should be doing. If you see my conversation, I think you will be pleased with it, and Welles on second thought - he is nobody's fool. We will throw this right back in his lap, and it is his responsibility, and believe me, he is not going to let me say that we lost Chiang Kai-chek because Sumner Welles wanted to protect the financial interests of this country.

MR. WHITE: Well, that is exactly what this letter - it puts him on that spot.

- 8 -

H.M.JR: But, Harry, I don't like to do business that way in these times.

MR. WHITE: Well, we didn't start this, Mr. Secretary. There was no intention on our part of doing this. When we got this letter from them, which we felt left no out--

H.M.JR: Right.

MR. BELL: And we are in a position where--

H.M.JR: If you bring this back to me at two thirty, see. I want this for my files.

MR. BELL: We are in a position where we feel that we can't talk to Soong, because he telegraphs it right back to the Generalissimo. Everything you say to him goes back.

H.M.JR: I told him, I said - he said, "Well, you have never asked him." I said, "Well, we sent this thing back to him, and this came back." You will see. I knew my taxes, and he wasn't - at first he was very, very brusque, and then he kind of ran off into honey.

STRICTLY CONFIDENTIAL

My dear Mr. Nelles:

I have your letter of March 9, 1942, expressing your opinion that it would be desirable to retain in the Agreement Article II of the draft first presented to Dr. T. V. Soong.

It is my view that the decisive considerations governing the \$500 million financial aid to China, as well as the desirability of retaining provision for consultation and exchange of information, are political in character.

From the point of view of protecting the financial interests of the United States and of safeguarding the most effective economic use of the financial aid, the retention of Article II would be desirable. However, the Treasury was unwilling to take the responsibility of seriously affecting the great political and psychological value of this financial aid by insisting upon the inclusion of this provision in view of the reactions of Generalissimo Chiang Kai-shek, as indicated in the letter from Dr. T. V. Soong to this Department.

I construe your letter to mean that you believe that from a political point of view the retention of Article II is desirable. Accordingly, unless you advise me to the contrary, I propose to reply to Dr. Soong that, after having taken the matter up with the State Department,

- 2 -

it is the view of this Government that Article II should be retained in the Agreement since it is "reflective of the cooperative spirit which underlies the common war effort of the two countries and might be of some assistance to the Chinese Government in resisting pressure from any group in China which might advocate an unwise use of any part of the funds made available".

Since I feel that the time is of essence and that we should consummate this agreement without delay, I would appreciate an answer from you on this matter as soon as possible.

Sincerely yours,

Secretary of the Treasury.

The Honorable Sumner Welles,

Under Secretary of State.

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, March 10, 1942.  
3/9/42

Press Service  
No. 30-61

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 11 and to mature June 10, 1942, which were offered on March 6, were opened at the Federal Reserve Banks on March 9.

The details of this issue are as follows:

Total applied for - \$471,349,000  
Total accepted - 150,194,000

Range of accepted bids:

High	-	100.				
Low	-	99.938	Equivalent rate	approximately	0.245	percent
Average						
Price	-	99.942	"	"	"	0.229 "

(17 percent of the amount bid for at the low price was accepted)

-000-

March 10, 1942  
11:20 a.m.

FINANCING

Present: Mr. Viner  
Mr. Bell  
Mr. Stewart  
Mr. Buffington  
Mr. Murphy  
Mr. Haas  
Mr. Lindow

H.M.JR: All right, Bell.

MR. BELL: I suppose yesterday we went over all of that material that we need to, didn't we, George?

MR. HAAS: Yes, the Secretary asked us to look into this reserve thing and mention some specific criteria. Henry has got some suggestions on that.

H.M.JR: Did you talk to Eccles?

MR. BELL: Yes, and I didn't get very far. He argued for an hour but wound up by saying that he would give it consideration and be prepared to talk again in a day or two. I told him you would probably want to talk to him before we went ahead here very much further and that that would be one of the problems we would have to discuss, and he said all right, he would be prepared to discuss it, but he argued very strenuously against it.

H.M.JR: Why is he opposed to it?

- 2 -

MR. BELL: He said he didn't think you could fix any minimum. One minimum one time might not be a good minimum for another time. He thought that wasn't the problem at all, that what you are interested in is keeping a good market and seeing that you can finance this program within the range of rates that you fixed. He said two and a half was the limit and then it is up to the Federal Reserve to see that the market is in such shape that you could all the time finance within that limit, and he thought that that was their responsibility, and they would have to assume that. Now, whatever level of reserves would be required, they would have to see that they were there. That is his main argument.

H.M.JR: Well, you have worked on this?

MR. HAAS: Henry has got some suggestions.

H.M.JR: Let's hear them, Henry.

MR. MURPHY: Here is a chart you can look at. We have a chart which shows the recent movement of excess reserves and the long and short rates so that you will have the factual background. We have worked up as possible bases for a definite agreement three alternative bases. First, increase excess reserves by at least three hundred million a month until total excess reserves exceed five billion and excess reserves in New York City is two billions, these levels to be maintained thereafter. The figures might be changed, but that is one type of a basis of agreement we might have. Another type is, the Federal Reserve banks to purchase an amount of Government securities equal to twenty percent of the net increase in total open market securities. This to continue until the levels of excess reserves specified in one have been attained. This level of excess reserves to be maintained thereafter. The twenty percent would not only offset the increases in reserve requirements due to bank consumption but would also provide a continuing backlog to increase the supply of excess reserves, and the one that we are inclined to - the type of basis that we are inclined to prefer is the third. Increase excess reserves by at least three hundred million in every month, in

- 3 -

which the long-term taxable average is more than two thirty or the money as long-term taxable average is now - now yield two forty-seven, so if an agreement of the last type were made using those figures, they would agree to increase excess reserves by three hundred a month until either the '67-'72's had gone up - had gone up until they yielded only two forty or the long-term - both that and the long-term average had fallen in yield to two thirty. That would provide an objective criteria and would prevent further disputes if it is expressed this way in figures.

H.M.JR: Well, you couldn't tie into that something for the short-term rate too?

MR. MURPHY: Well, the idea is that the short-term rate would be kept flexible at such a level as would support the long-term rate, that the long-term rate would be the only stated objective and the immediate impact of the excess reserves would be on the short-term rate and that will propagate itself out to the long-term rate.

H.M.JR: You feel sure of that?

MR. MURPHY: I feel sure that that would be the tendency. I have no idea what short-term rate would be necessary to maintain a given long-term rate.

H.M.JR: This is the idea of my mechanical pari-mutuel, is it?

MR. HAAS: That is right.

H.M.JR: It is not bad, Henry, for overnight.  
(Laughter) What would you do in two nights?

MR. STEWART: Go down to two percent, wouldn't you?

H.M.JR: It is not bad.

MR. BELL: That would mean the total excess reserves of about five billion?

- 4 -

MR. HAAS: Well, this other one - you have no top on the third suggestion. You just look at the rates and see what is necessary.

MR. MURPHY: They might not have to buy any if the rates--

MR. BELL: Were between two forty and - on the long-term?

MR. MURPHY: Yes, if the rate was below two forty on the '67-'72's and two thirty on the long-term.

MR. BELL: Below two forty?

MR. MURPHY: If the rate was below two forty. The price of course would be higher.

MR. BELL: That is what I was thinking. What does that mean in terms of prices for '67-'72, about one something premium?

MR. MURPHY: Two and a half.

MR. BELL: Oh, really?

MR. MURPHY: I haven't figured it out in price.

H.M.JR: At first blush that number three looks very interesting.

MR. BUFFINGTON: I was just wondering if there was any assurance that the three hundred million increase a month would necessarily keep those rates at those levels.

MR. LINDOW: It wouldn't tie in. The three hundred wouldn't have anything to do with the third one of tying into the rates. The third one is independent, in which, if the rate goes to a certain point, you have to buy three hundred.

MR. HAAS: Next month they have got to do it again.

- 5 -

MR. LINDOW: Three hundred more?

MR. HAAS: That is right.

H.M.JR: What would you think if you simply said "increased reserves by that amount, leaving the amount blank, which will attain the following results"?

MR. VINER: I think that that seems to me desirable except that they technically could keep that agreement by making very, very slight purchases at a rate which doesn't correct the situation, you see, and I take it that this three hundred million minimum is an attempt to force them to act not necessarily sufficiently but at least actual minimum degree of action.

MR. LINDOW: That is right.

MR. VINER: And yet I think that is too rigid. I think you would have to work out something between those two whereby the obligation is for sufficient action but where you don't tell them how much is sufficient.

MR. MURPHY: Well, that would be sort of like keeping buying silver until the proportion were one-quarter in the monetary reserves, but no statement as to how soon that objective had to be attained or how much progress you had to make on it in any given month.

MR. VINER: Well, I would prefer their weekly rate, you see. A lot can happen in a month. Theoretically here they would have to keep on for a month. I would prefer a weekly rate.

MR. STEWART: How would it be to have a combination of the weekly rate of purchase with an amount to be maintained in New York City? Then you would have an amount of purchase in the open market aimed at the maintenance of a given rate, whatever rate is decided, and until excess reserves in New York City are maintained at a certain level of excess.

MR. VINER: Well, there you would have the problem

- 6 -

that what you were doing was too much for one purpose.

MR. STEWART: But there is some limit. It is even conceivable, you see, that through excess reserves you couldn't maintain the rate. It is conceivable. There is some place at which you might stop, but you wouldn't stop until you had built up excess reserves in New York City to a certain level.

MR. VINER: I see, yes. Whichever one is reached first, then?

MR. STEWART: Yes.

MR. BELL: Henry, in our discussions with the Board, we have referred to long-term two and a half's as falling in the early '60's. Would we need a yield rate of two thirty - between two thirty and two forty on the '67-'72's to get a security in the early '60's on a two and a half basis, market security?

MR. MURPHY: Well, of course we--

MR. BELL: You could do better than that, couldn't you?

MR. MURPHY: You could put out another '67-'72.

MR. BELL: Yes, if you had the price you just suggested, you could put out another '67-'72 and wouldn't we be satisfied if the yield on the '67-'72 is kept between two forty and two fifty?

MR. MURPHY: Of course it is two forty-seven right now. It seemed to me that it was necessary that it be boosted - the price be boosted enough to provide an element of insecurity to the holders, such as Mr. Stewart was suggesting yesterday. If the yield of the '67-'72's is lowered enough, the price was raised enough so that the holding of them represents a real risk as compared to the short-term money, you have got a better chance of maintaining your pattern of rate and a less chance that they will be considered to be demand money. You remember that when we were discussing the ten basis points range

- 7 -

of fluctuation in the meeting in your office yesterday morning, it was said that that couldn't be around two fifty. It probably couldn't even be from two forty to two fifty. It would have to be a level which maintains your two and a half percent rate and still maintains the essential insecurity of long-term securities, and therefore the superiority of short-term money.

MR. BELL: We said we couldn't maintain a level between two forty and two sixty. In other words, it couldn't be ten points each side of two fifty. It has got to be some place below two fifty.

MR. MURPHY: I don't think it could have two fifty as one of its ends either, because if we make a commitment that two fifty is the floor and then we allow rates to fall to exactly that floor, then long-term money is a safe commitment. If your floor is two fifty, it seems to me your range of fluctuation has to be perhaps from two thirty-five to forty-five in order to provide a constant - always have a risk in your long security. Does that implement your point?

MR. STEWART: Yes, the amounts I don't know, but that is the logical--

MR. MURPHY: I mean the general idea.

H.M.JR: Well, personally I think we have made a little headway, but I just want to throw this to you so that you people don't think you are working up to a crescendo and then find that there isn't going to be any. It is going to be practically impossible for you people to get me to join the Federal Reserve on a statement on the two and a half percent rate. Do you mind if I quote you, Walter?

MR. STEWART: No. I don't remember what I said.

H.M.JR: Walter Stewart said what I would be building up - he didn't use the word, "a Frankenstein", but I used it, he said would be building up another gold standard so

- 8 -

when we went off the two and a half percent rate it would become a thing of great financial importance just as when we went off the gold standard. Am I putting it correctly so far?

MR. STEWART: Yes.

H.M.JR: And why do it, and it would be tying my hands. Isn't that what you said?

MR. STEWART: Yes. Tying your hands so long as long-term financing is concerned. Then you would have to look for other alternatives.

H.M.JR: Now, I just - one reason Roosevelt put me into the Treasury was to untie his hands on the gold standard, and I don't see why it is necessary or wise, in view of the changing situation every day, for me to join anybody in a statement that two and a half percent is going to be the rate, because you can't do it. Now, you can grope toward it and, if they have come along on a formula like that, we can approach it, but all my instincts cry out against doing it. I have been that way now for how many months?

MR. BELL: Well, we first approached it in November, I think.

H.M.JR: Yes. I am afraid you fellows just - I work on instinct, which I suppose is based on accumulated experiences. When you get a hardheaded fellow like Walter Stewart who does everything with a slide rule and has no emotions, and he arrives at the same conclusion independently, I just want to let you know - I mean, if you think, well, we are going to come up toward that, and when we get to this point, this is what we are going to do--

MR. STEWART: May I make an observation there?

H.M.JR: Do you want to claim you have got emotions?

MR. STEWART: I fear that I haven't got any. I

- 9 -

understand the instinct of freedom. The real question of analysis is how much freedom have you got? Because any one would like to have what he wants and preserve his freedom. You already have some commitments, both in the market on your long-term securities and some commitments on your restricted issues, and I think the subject of inquiry is not what you would like, but the degree to which you haven't got a free hand already. You have got a structure of rates, part of which you are committed to on these restricted non-negotiable securities, part of which are in the market already, so that the margin of freedom that you have is not as - without consequences is not as wide.

H.M.JR: Well, I know I am surrounded by a fence, but why make the fence higher and why charge it with electric current?

MR. STEWART: If you say why make a statement, that I am in sympathy with. I must say, for myself, I am very dubious about the advisability of a statement to a public which you cannot be sure when you make it that you are going to fulfill it without foregoing other advantages.

H.M.JR: What?

MR. STEWART: I agree with that.

H.M.JR: Statement or no statement?

MR. STEWART: No statement. A policy which conceivably could be worked out with the Federal Reserve, but to my mind, no statement.

MR. VINER: You may recall that I have always been reluctant to recommend a statement, particularly a very definite one, but I have been converted to the belief that you will have more freedom if you do make a statement like the one that has been discussed here in which you say that the Treasury plans not to finance at higher rates than two and a half, but don't say anything about maturities, and that you won't have a program without

- 10 -

the statement to the public, because the Federal Reserve and Treasury don't work quickly enough together and harmoniously enough together and one or the other of them doesn't keep its understandings to the other faithfully enough so that you will have anything to count on unless you have protected it by a statement to the public, and I really think that you ought to be seriously concerned as to whether you can sell securities to the banks without pressure if you don't give them assurances that they are not going to have capital losses.

H.M.JR: Well, I am sorry, but that doesn't make it - that doesn't make a dent. I would like to go along, gentlemen, with you. I would like to have you explore this for me at once, see. This is the thing which would make the two and a half percent thing realistic, wouldn't it?

MR. BELL: Probably it would. I don't know that it is--

H.M.JR: Well, let's put it this way. This is the way I would like to approach it. Now, I know you have got something tailored in the short-term. I know you have got something ready in the long-term. I am ready to go to town any day on that.

MR. BELL: Well, I think we ought to get going on that, whether you do the other thing or not. If we are going to make a statement, the Federal was going to join us, and we would come out at the same time and say, "Here is a short-term and a long-term security that would pick up these current available funds."

H.M.JR: Well, Dan, I will not start launching this plan of having the Federal Reserve start selling these securities until I can get an agreement with them on excess reserves. I make that as--

MR. BELL: You mean you won't go along with a short-term issue?

H.M.JR: No.

- 11 -

MR. BELL: Until you have something on the other.

H.M.JR: Yes, because we have got another financing coming along very closely, and I want to get this thing straightened out first.

MR. HAAS: Isn't the stronger statement action in any case?

H.M.JR: Yes. Get this understanding, something like what you fellows have worked out, and then come along and announce - what is it, a five year?

MR. BELL: And a twenty.

H.M.JR: Five and a twenty. And then I am perfectly happy. I am doing a little horse trading, but the Fed is very anxious to be designated as a medium to do this. The five year, that is. Do they want to do the twenty, too?

MR. BELL: Yes.

H.M.JR: And I am not doing anything that I don't believe in, but before we do the five and the twenty, I want an agreement on excess reserves.

MR. BELL: I am not sure you can't do the securities--

H.M.JR: No, I don't want to do it. If you don't mind, I won't do it, because the Fed are crazy to do the thing. Eccles is crazy to do it. You have to trade with Eccles and this is the time to make a bargain with him.

MR. BELL: It is going to take a long time.

H.M.JR: I thought they said they were ready to do something on this.

MR. HAAS: They agreed - you name the pattern and they will support it. They say all they are suggesting

- 12 -

is a mechanical way of implementing that understanding.

MR. VINER: There is a big step between supporting a principle and accepting a formula.

MR. BELL: There is a lot of difference in that and what they suggested.

H.M.JR: I will tell you what I am willing to do. I don't want to be dogmatic. I want to be fair. Give this thing a trial and re-examine it every month based on the record. That is fair, isn't it, Walter? Try it for thirty days and then each month we will have a meeting and re-examine it and see what happens.

MR. STEWART: My impression is that the agreement - that this number three, if it could be put in such form, that the only difference was that you are not going to make a statement. Then it seems to me you have got some essentials reserved here. You can make modifications in three which would meet part of their requirements if the purpose is to maintain a volume of reserves adequate to support a long-term rate of so and so. Then that is what they are asking for, but they are also asking for a statement. If you say, we are just not making any statements, and then couple it with the other two, it might look a good deal like a program that you have talked over, without the statement.

MR. BELL: I think they will contend that it isn't necessary to have the '67-'72's at that yield level to maintain this two and a half rate.

MR. STEWART: I think so too. I think there may be merit in that.

MR. BELL: There may be some--

MR. STEWART: But they would be on the other side prepared to say they would do such things in the market as were necessary to maintain some rate. Then you have a difference as to which rate it is you are trying to maintain and whether you make a statement.

- 13 -

MR. BELL: Well, they agreed with us the other day in a conference that long-term securities meet in the early sixties, which means twenty years, at two and a half percent, and that they were prepared to go along on a program of that kind, and I think they would contend that you don't need three and a half million dollars in reserves to maintain that.

H.M.JR: Well, this thing that - the interest rates and their movement, there is a definite tie-up between the two. There is your history. I mean, it is conclusive. I mean, I sense these things, and then they come along and give me some data to back up my - what I sense. It proves it definitely, doesn't it, Henry?

MR. MURPHY: Yes.

H.M.JR: Definitely. I mean, this isn't just - and, Dan, I will not go through another financing with the excess reserve situation the way it is in New York, the way it was last time. I won't go through it again. I feel very, very strongly on this thing. I will not go through another thing like that.

MR. BELL: Of course, one thing Eccles would like to see is a short-term rate of a half, and he says that when you get that, you are going to get a lot more funds than you have had heretofore out of the country, and not just in New York.

H.M.JR: Well, could I do this, to let Eccles know? I am very quiet on the phone. Let me call him up and say that you people are meeting with me this afternoon. Supposing you meet with him. I want to get as much as I can out of Stewart, see, and let me tell him that I feel this thing very strongly, and if I am wrong, supposing they go out on a program and do this for me, and I am wrong. Well, then I am wrong. I mean, their reputation hasn't been hurt and my reputation hasn't been hurt. Can you see any harm in their trying this thing?

MR. VINER: Oh, I think it would be something gained if you had an agreement. I am not saying you must have

- 14 -

the statement. I would suspect - you can't be sure. You can't be confident that they are going to work any such pledge as this unless it is made rigid. They won't accept a rigid one. They won't work one which rests on a statement of principles to your satisfaction unless there is a statement to the public which imposes a compulsion on both of you to carry out your agreement.

H.M.JR: Well, let me just--

MR. VINER: Also, it may be hard to work it without the statement, because I am not an expert in the sense of the market, but from what I gather, the bankers are really expecting that if you are going to ask them to buy a lot more Government Bonds that they are going to get some kind of assurance that the bonds are not going to have sharp fluctuations.

H.M.JR: Look, Jake, I just went through on a tax thing - I made a statement. In fact, I didn't make it, Sullivan made it. It was in regard to what you could or couldn't deduct in the way of your taxable income, see. They gave it a certain interpretation. We didn't mean that, but that is what they gave. So, I have - were you present?

MR. VINER: Yes, I was here.

H.M.JR: You were there. You saw what I went through, and against the Treasury's better interests, I said, "If this is the way you understand it, gentlemen, I will go along," didn't I?

MR. VINER: Yes.

H.M.JR: Now, that was on an interpretation which they gave something that a mouthpiece said for me. Now, I am coming out myself and say something, and I never can live it down if time should change. I mean, something can - look, I keep going on the theory ever since I have been here, that the unexpected can't happen, and it has happened every month, something. Since I have

- 15 -

been here, we have been fortunate enough that the public has confidence in the Treasury. Now, it could lose this confidence. I might make a misstatement inadvertently, or the President might, and we might lose it, and these fellows go out on a sit-down strike. This country might be invaded, and then it gets down to saying, "Well, the only way that you can borrow the money is through making the rate attractive. God, they did it in the last war. What did they pay? How high did they go?"

MR. BELL: Four and a quarter percent on their bonds and they went six percent--

H.M.JR: And here I am hamstrung with this statement facing me where I could get the money at three, but I can't get it at two and a half, or I could get it at five.

MR. VINER: I think what they are telling you now is that really you can get it at two and a half, but can't get it at four.

H.M.JR: Well, I don't believe it. That is what I don't believe, because I have gone through it, and I know that at a price - I mean, if these fellows come in here and say, "Mr. Morgenthau, we will let you have money for nine months at two and a quarter percent and you can have it." Then they come along and say, "We will let you have long money for eleven months." I have been all through that. But, you are taking away from me the attractiveness of an interest rate. There must be other wars where people paid ten or fifteen percent when they were losing a war. There must be plenty. You fellows that have been in universities all your lives, you must know plenty of examples where countries were losing a war where they had to pay--

MR. VINER: Well, I would argue that they gained nothing by paying that, that the rate of interest has little to do with--

MR. BELL: With the supply.

- 16 -

MR. VINER: ... with the supply of funds, and that I wouldn't - I certainly wouldn't get a pattern on the basis that - well, if the funds are coming in slowly, we will tempt them in by raising the rates. I think on non-banking funds to a certain extent, yes, but on the banks, no. I would say that the rate that you pay to the banks ought to be figured out in terms of what they need in order to maintain a healthy position, but the funds they have to give you, they can't keep them out, and they themselves will be more comfortable, and their position will be stronger if you don't raise the rates.

MR. STEWART: They are comfortable so long as the guarantee is kept.

MR. VINER: As long as there is assurance in the market that the guarantee can be kept.

H.M.JR: Did you want to say something?

MR. BUFFINGTON: No. I know so little about all this. I shouldn't express an opinion, but I don't see how you can avoid the fact that the old law of supply and demand works. In other words, I know of funds today that would come out on a three percent market.

MR. VINER: Banking funds?

MR. BUFFINGTON: Yes.

MR. VINER: What are they doing?

MR. BUFFINGTON: They are just there. They are taking the best they can get in places where they can get it, and holding idle funds where they can't get it, but I think that business funds and banking funds both--

MR. VINER: Well, business funds is another story.

H.M.JR: Excuse me. Who told me at Chicago how many accounts had over a million dollars in--?

MR. BUFFINGTON: It wasn't me.

- 17 -

H.M.JR: Well, somebody told me the number of accounts that they had in their bank of over a million dollars of individuals, cash, just lying there. I think somebody told me - oh, I guess it was Ned Brown. Was it Ned Brown? Do you remember that story?

MR. BELL: Yes.

MR. VINER: Well, they must be expecting the rate to raise.

MR. HAAS: Yes, that is it.

MR. VINER: That is what makes the funds idle.

MR. STEWART: That is not all of it, Jack, there is a rate at which given the surtaxes it isn't worth bothering with the papers. There is another rate which makes it worthwhile. And the option of doing nothing is always open to them. On the general argument, I am in agreement with the Secretary.

H.M.JR: Well, you go back - it isn't quite the same. You did business, when you were in business - you were in a venture business, and you had to have a high return to venture your money. If you couldn't get a high return, you wouldn't venture your money. Is that right?

MR. STEWART. That is right.

H.M.JR: Well, this is to a lesser degree the same thing.

MR. BELL: I think you are in a war, Mr. Secretary, and I think you are--

MR. STEWART: They look upon the rate of interest as being essentially a monetary factor which can be maintained under a monetary mechanism, and that the money which comes from the banks does not have to have adjustment with reference to anything that is called saving, or the amount of money that is going to come out, and it is

- 18 -

possible to take a commitment, given the Reserve System cooperation, and they say as far as the banking system is concerned that is quite--

MR. BELL: We are talking about controlling prices all along the line, and I think it would be unconscionable to the American people to pay more than two and a half percent to finance this war.

H.M.JR: I agree with you, but let me look up some of these speeches in which he said through cheap money he could put people back to work. Did he?

MR. BELL: That is another era.

H.M.JR: No, Dan, excuse me.

MR. HAAS: He helped.

H.M.JR: Now, wait a minute. What?

MR. HAAS: It helped.

H.M.JR: But wait a minute. The point - but it didn't solve unemployment.

MR. HAAS: But it might have been worse if he hadn't done it.

MR. MURPHY: Two and a half percent might not win the war either, but it will help.

H.M.JR: Well, you very seldom see me as rigid as I am on this thing. Now, it isn't going to break Mr. Eccles' back or his theory or anything else if we say to him, "Look, let's try this thing. I feel this way very, very strongly. I am going to ask you to try it. And let's see what happens to the record here and everything else. Let's try it and see what happens." I would like to call him up on the phone and just tell him very quietly how I feel. Could he see you people, and I would like to meet with him Thursday afternoon and try to settle this thing between now and Thursday afternoon.

- 19 -

MR. BELL: Would you agree--

H.M.JR: There are two honest differences of opinion. Using Viner as the example, Viner says that the interest rate is not the controlling factor, that it is the people scared--

MR. VINER: For banks.

H.M.JR: And, I differ with you. And I also say I will not go into another financing unless this excess reserves situation has changed.

MR. BELL: Would you be willing to agree here that the two and a half percent is an objective without making any public statement, in other words, among ourselves--

H.M.JR: Yes.

MR. BELL: O.K.

MR. VINER: There is no - I don't see yet any urgency--

H.M.JR: Yes.

MR. VINER: ..of the statement--

H.M.JR: Dan.

MR. VINER: ... as long as the pattern--

H.M.JR: Yes.

MR. VINER: ... isn't broken.

MR. BELL: Well, the urgency of the statement is that you get a lot of people outside saying, "Well, why doesn't the Treasury have a program? What is this program of financing thirty-nine billion dollars next year? Have they got any pattern?" A lot of people raise that question. Now, the Fed says--

- 20 -

H.M.JR: I read that.

MR. BELL: That is what we want. Maybe it came from the Fed, I don't know. But they say when the Treasury establishes that pattern, we are going to get behind it and see that it works to the full extent of our ability.

H.M.JR: That is why I raised the question about publishing the stuff yesterday. I read the same article you did.

MR. BELL: It has been out. A lot of people on the Street have been in to see me, and they say, "What is your pattern for financing this thing? Is it just going to be an issue every other month of any type that you can put out at that time, or are you going to say to the public, 'Now, this is what you can expect'?"

H.M.JR: Well, Dan, answering your question as to the object, I have given you my answer.

MR. BELL: That is right, you have, and I am satisfied with that.

H.M.JR: Are you satisfied?

MR. BELL: Yes.

H.M.JR: Will you fight for that on that level?

MR. BELL: Yes, and they will go along with that on that two and a half objective. They may not go along with the way of achieving it like Henry put it down on paper, but they will go along with that objective.

MR. HAAS: It will leak out anyway. Maybe that is the most effective way of doing it.

MR. BELL: Well, that is an effective way.

H.M.JR: All I have got to do is send for Randolph Burgess and Mr. Stonier the way I did the other day

- 21 -

and then the whole thing down to the very adjectives appeared in the Wall Street Journal. It was the most disgusting performance I ever saw. If I seem a little terse today, I can't sing it, but I paid my income tax today. (Laughter.) Boy, oh boy, oh boy, as Donald Duck says. It is a good thing to have Donald Duck around.

MR. BELL: I hope you think back when you go to put in the ten percent withholding.

H.M.JR: It is a good thing to have old Donald Duck around. I can also understand--

MR. BELL: Think of next year.

H.M.JR: That is the thing. This thing coming now when we are talking about next year makes this year look good. I think we are going to take in boarders if we can deduct it as expenses, and this year of all years, my farm had to make money, Jake.

MR. VINER: Well, you could get a new accountant. No gentleman's farm makes money.

H.M.JR: This year of all years we had to average so much on our strawberries.

MR. VINER: That is why I say you ought to get a new accountant.

H.M.JR: Just this year the farm had to make money.

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

March 10, 1942  
12:06 p.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner  
Eccles: Hello.

HMJr: Good morning, Marriner.

E: Good morning, Henry.

HMJr: How are you?

E: I'm pretty good.

HMJr: Marriner, I've been sitting around here with my advisers on this question of financing.

E: Yes, sir.

HMJr: And we've reached a certain point where we'd like to meet with your men, you see?

E: Yeah.

HMJr: And I've got some notions which I'd like them to put up to you. I don't think we're so far apart as to the objective, you see.

E: Uh huh.

HMJr: But frankly, the last financing, that excess reserve thing bothered me tremendously, you know.

E: Yeah.

HMJr: Particularly the New York situation, the fact that a quarter of all the reserves were with the Guaranty and they sat back and did next to nothing. So I'd like them to present our viewpoint to you on a kind of a trial basis, you see? And then I thought if between now and

- 2 -

next Thursday at three o'clock, at least we could come as close as possible - at least know where our differences were. Then I'd like to meet with you.

E: On Thursday.

HMJr: Yeah. Are you going to be here Thursday?

E: Yes, sir.

HMJr: Would three o'clock be good for you? Thursday?

E: Let's see. Yeah. I'll set Thursday - three o'clock is okay.

HMJr: Well, now, my men can come over this afternoon to see you.

E: Well, I wouldn't have time to get Sproul here; but I guess that wouldn't be necessary then.

HMJr: Well, he could come down tomorrow. Then we could work right through until Thursday until we got the thing settled.

E: I'd like him here Thursday, because it's very important, because he understands this problem possibly as well or better than any of us, and is very - we've got to depend a good deal, of course, upon the - as long as the New York bank is our agent in the operation, why it's pretty important that they be in the picture.

HMJr: Well, would you like to meet with our boys this afternoon?

E: Yes, I would. Then let's see now - unless we could meet tomorrow.....

HMJr: I tell you.....

E: .....with them, I could get Sproul down tomorrow afternoon and we'd meet tomorrow afternoon with them and meet with you Thursday. How would that be?

HMJr: Well, with this - Walter Stewart is just here

- 3 -

for today.

E: Oh, yes.

HMJr: And he happens to see the thing the way I do, so I'd like you to get the benefit of his thoughts.

E: Yes.

HMJr: I mean, if you just would get his ideas today.

E: Yes. Well, I'd like very much to get them if he isn't going to be here tomorrow - I'd like very much to have his point of view.

HMJr: Well, he's not going to be here tomorrow.

E: He isn't? Well, then - who did you - I can come over there or they could come over here, either way. Who did you want me to meet with?

HMJr: Well, it would be Bell and Viner and Stewart and some of Haas' people, and Buffington.

E: Uh huh.

HMJr: And they'd be glad to come to you - any way - they'll come over to you.

E: Well, now, what I thought - let's see - goah I wish we could get Sproul here. I might be able to get him to take a plane and come down.....

HMJr: Yeah.

E: .....if we met later this afternoon. Well, what time would they like to meet this afternoon?

HMJr: Well, Stewart leaves - (talks aside) when do you leave?

Stewart leaves at five.

E: At five. Well, we ought to meet by three anyway.

HMJr: Yes.

E: Hadn't we?

- 4 -

HMJr: Yes.

E: Well, I'll tell you what to do. I'll come over there. There's possibly fewer of us than you've got; and if that's okay.....

HMJr: Fine.

E: .....I'll come over there and we'll meet in Dan's office.

HMJr: Right.

E: And I'll get Sproul if I can, and if I can't, why I don't know who I'll bring over. But I'll come over and bring somebody.

HMJr: Righto.

E: And three o'clock then.

HMJr: Right.

E: Then we'll figure three o'clock on Thursday with you.

HMJr: That's right.

E: All right, then. Fine.

HMJr: Thank you.

E: Good-bye.

HMJr: Thank you.

- 22 -

H.M.JR: I am seeing you, Dan, at two thirty on the Chinese thing. They can't laugh off that chart that those boys prepared showing the influence of the Federal Reserve increase in excess on the money market, and I frankly, Dan, - I would like this week if possible this thing settled of--

MR. BELL: We would like to have it settled too.

H.M.JR: I agree in principle on the two and a half as an objective. I think every effort should be made. I don't want to commit myself publicly to it. I feel very, very strongly; I would like something done about the reserves on some kind of a formula basis and then on the other thing, these two issues; as soon as those two things are settled, I am willing to go ahead at once and use the Federal Reserve, but I don't want to move until those things are settled. And here is the point--

MR. VINER: How much of this may we tell Eccles?

H.M.JR: Everything. And supposing I am wrong. Well, how much damage is done if he has bought three or four hundred million dollars worth of stuff?

MR. BELL: Well, at the end of the next twelve months he will have a good deal more than that.

H.M.JR: But I mean, supposing I am wrong? Eccles will say, "Well, I did it because Morgenthau insisted. We told him he was wrong, but in order to humor him, we did it." And if, on the other hand we are right, it is a joint operation and I keep my mouth shut. I don't think that that is unreasonable, Jake, do you?

MR. VINER: Well, I don't see any problem on that. If they increase their excess reserves, the only ill effect I can see that it might have is an inflationary effect at a time when we don't want it, but that is easy to correct at this time.

- 28 -

H.M.JR: Well, you can say, "Morgenthau wanted to--"

MR. VINER: But, they will not want a rigid formula. I think myself that they probably will feel that they have a duty not to accept a rigid formula handed to them from another agency, but they are obliged to use their judgment, and my guess is that I would want to read the text of the law, and their counsel would tell them they can't do that.

H.M.JR: Well, you can have it verbally.

MR. BELL: You mean they can't legally enter into a rigid arrangement.

MR. VINER: No, I doubt whether they have the right to do it.

H.M.JR: Their word is good enough for me.

MR. VINER: The point is you can talk to them too rigidly. They may feel you are trying to put them in a vise where they won't be in a position to use their own judgment as the law requires them to.

MR. HAAS: Well, wouldn't that be their judgment?

MR. VINER: I wouldn't show them anything as definite as that.

H.M.JR: Look, I am willing - all I am asking is to make an earnest start, and I am willing to have consultation at any time. I think we should consult anyway once a week, whether we have something to consult about or not.

MR. BELL: We have been doing a lot of consulting right along.

H.M.JR: Furthermore, you can tell them, "Morgenthau wanted to do it through regulations, and we think we have persuaded him not to do it through regulations," which is correct. I mean, I wanted to change it. Now, we have

- 24 -

argued them of that and let them do it this way. Let them think that this is my first position, and this is my second position, which is true, Dan. My first position, I wanted to do it through regulations. Now, you fellows have got me down to this point. Do you feel you can go in this thing and represent me without stultifying yourself?

MR. BELL: Oh, sure. I am all right. I don't feel badly about this.

H.M.JR: You don't feel you would have to stultify yourself?

MR. BELL: No, sir, as long as the objective is what we are after, and we get strong action toward the objective, and I think there has been some doubt in all of our minds as to whether this should be a public statement; and when we discussed it last, we thought maybe that you could make this statement before the Ways and Means when you discussed the debt limit. Well, we didn't have time, so we dropped that idea. Now, even if you are going to make it public, I think we would have to still decide what would be the occasion. You just can't come out with a public statement like this. You have to have some sort of an occasion on which to do it, and that is what we were looking for. Now, on the support of the market, you say that it is a joint undertaking. I wonder if we are going after this objective - should it be a joint undertaking in the market? Because we are using borrowed money, and their going ahead alone is much more effective.

H.M.JR: Well, I am open to argument on that. I will take advice on that.

MR. BELL: I think if we start out on that program, that they ought to do it alone.

H.M.JR: But, let them ask for it, you see.

MR. HAAS: There is one more supplement--

- 25 -

H.M.JR: I am open to argument and advice on that.

MR. HAAS: There is one more thing, Dan, which hasn't been mentioned which I think the Secretary should have brought to his attention. In order to carry on these open market operations to the extent to which they will have to be carried on, you have no objection to increasing the bill issue?

H.M.JR: No, that is all right.

MR. STEWART: How long an experimental period do you have in mind?

H.M.JR: Three months?

MR. BELL: Until after, certainly, the next financing.

H.M.JR: Wouldn't that be on--

MR. STEWART: Yes.

H.M.JR: Am I unreasonable, Walter?

MR. STEWART: I don't think so.

H.M.JR: Do you think I am, Jack?

MR. VINER: No, not at all. I don't think this is an easy problem to answer.

MR. BELL: That is right.

MR. VINER: And I think we are - I don't really think that there is very great difference of opinion. There are a few little edges of difference here, and I don't think there are great differences of opinion in the Federal Reserve.

MR. BELL: I think we are together on fundamentals. It is probably the mode of carrying it out.

- 26 -

MR. STEWART: I think you might have a difference in the rate here.

MR. VINER: I hadn't thought about that.

H.M.JR: Again, I want to move in the direction of more - what did I want? I mean, I want the banks to have more reserves, isn't that what I want?

MR. STEWART: Yes. With an objective, but not necessarily too restricted a formula and with the exchange of ideas between the two.

MR. VINER: I think there is one more point on which there may be room for disagreement, and that is the question as to the very short-term rates, and as to whether or not they can go up without affecting the long term rates, whether they should be allowed to go up.

H.M.JR: Well, that is again - but one thing I would like, and I just thought of it, so it isn't uppermost in my mind. Otherwise, I would have mentioned it earlier. Eccles has told me, sitting there, again and again, the responsibility of financing the war is mine. I recognize that. "But, we will do everything we can to help you," he said. So, in the final argument with him, remind him that he said that the final responsibility is mine.

MR. BELL: Well, he has often said that.

H.M.JR: But, he has said that, and he does recognize that. As I have said again and again, we sit around and ask Eccles' advice on a financing; and if the financing fails, I can't publicly say, "I took Mr. Eccles' advice or the Federal Reserve Board's advice, and that is why it is a failure," and he does recognize that the Secretary of the Treasury has got to finance this war, and certainly we haven't been trying to bulldoze him into anything; but in the final analysis, and I say I am mentioning it last because I just thought of it, it is my responsibility, and I do feel this thing very, very - and if I am wrong, that is that.

- 27 -

MR. BELL: You know, if this two and a half twenty-year security that we are suggesting here works, you won't have many more long-term issues as a public offering, because the funds won't accumulate except rather slowly, and the things that you offer hereafter will have to fit the bank's portfolio. In other words, it will be within the twelve years. We hope to simplify the financing, but we are not sure we will.

### Alternative Bases for Agreement on Excess Reserves

(1) Increase excess reserves by at least \$300 millions a month until total excess reserves exceed \$5 billions, and excess reserves in New York City \$2 billions; these levels to be maintained thereafter.

(2) The Federal Reserve Banks to purchase an amount of Government securities equal to 20 percent of the net increase in total open-market securities, this to continue until the levels of excess reserves specified in (1) have been attained; this level of excess reserves to be maintained thereafter.

(3) Increase excess reserves by at least \$300 millions in every month in which the long-term taxable average is more than 2.30 percent, or the 2-1/2's of 1967-72 yield more than 2.40 percent. (The long-term taxable average is now 2.36 percent, and the 2-1/2's of 1967-72 now yield 2.47 percent.)

March 10, 1942

March 10, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. Bell's Office  
March 10, 1942  
2 P. M.

Present: Mr. Bell  
Mr. White  
Dr. Viner  
Mr. B. Bernstein  
Mr. Southard  
Mr. Friedman

Meeting was called to draft a letter in reply to letter received from Undersecretary Welles. Dr. Viner and Mr. White submitted draft letters and on the basis of these a letter was drawn up.

It was agreed at the meeting that a history of the loan should be written.

Letter received from Dr. Soong containing changes in the Agreement suggested by Dr. Kung was distributed.

My dear Mr. Welles:

I have your letter of March 9, 1942, in which you question the desirability of eliminating Article II from the draft of the Agreement presented to Dr. T. V. Soong.

I would welcome any provisions in the financial arrangement with China which would protect the financial interests of the United States, as well as promote the most effective economic use of the funds by the Chinese. If there were not overbalancing political and military considerations, I would insist upon the retention of Article II of the original draft, and even inclusion of stronger provisions. But it has always been agreed at meetings between State and Treasury Departments that the purposes of the financial aid were predominantly political, diplomatic, and military. These considerations therefore have determined the formulation of the terms of the Agreement which was submitted to the Chinese.

As you know, the first draft handed to the Chinese Government included Article II calling for consultation and exchange of information. However, in view of Generalissimo Chiang Kai-shek's reactions to Article II, and of his request that it be omitted, communicated to us in the letter from Dr. T. V. Soong to this Department, the Treasury was unwilling to risk jeopardizing the important political and military value of this financial aid by insisting upon the retention of Article II in the Agreement and therefore raised that question with the State Department.

In light of the fact that the determination of the inclusion or the exclusion of Article II turns almost wholly on questions of political character, and in view

Sent at 6:15 PM to Soong  
 Case for signature & then  
 to State Dept by direct  
 Service Capt Montgomery 3/10/42

- 2 -

of our telephone conversation of today, I should like to have you advise me as to what our next step should be in replying to the Generalissimo.

Since I feel that time is of the essence and that we should consummate this Agreement without delay, I would appreciate an answer from you on this matter as soon as possible.

Sincerely yours,

Secretary of the Treasury.

Honorable Sumner Welles,  
Under Secretary of State.

Minister for Foreign Affairs  
Republic of China

March 10, 1942

CONFIDENTIAL

Dear Mr. Bell:

Following my letter of March 3rd containing the observations of Generalissimo Chiang Kai-shek on the draft loan agreement, I have now received a message from Mr. H. H. Kung suggesting some further changes. These final suggestions however, as you will see, are principally changes in draftsmanship:

- (a) Preamble (6) Instead of the words "will safeguard the unity", substitute the words "will promote the welfare".
- (b) Preamble (7) Include the phrase "other than those supplied under the Lend-Lease Act" after the words "best military needs".
- (c) Article I. It is desired to name the Minister of Finance as the channel of the Chinese Government to implement the terms of Article I.
- (d) Article II. The second sentence is retained in the form of the original draft. Instead the words "by the two contracting parties" are added to the first sentence of Article II, after the words "is deferred".

I am enclosing several copies of the draft with the suggested changes. I hope you and your colleagues will be good enough to give your kind consideration to the above points.

Yours sincerely,

(sgd) T. V. Soong

T. V. Soong

Mr. D. W. Bell  
Under Secretary of the Treasury  
Treasury Department  
Washington, D. C.

SUGGESTED DRAFT CHANGES

215

WHEREAS the Governments of the United States of America and of the Republic of China are engaged together with other nations and peoples of like mind, in a cooperative undertaking against common enemies, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations and

WHEREAS the United States and China are signatories to the Declaration of United Nations of January 1st 1942 which declares that "each government pledges itself to employ its full resources, military or economic, against those members of the Tripartite Pact and its adherents with which such government is at war"; and

WHEREAS the Congress of the United States, in unanimously passing Public Law No. 442 approved February 7, 1942 has declared that financial and economic aid to China will increase China's ability to oppose the forces of aggression and that the defense of China is of the greatest possible importance, and has authorized the Secretary of the Treasury of the United States with the approval of the President, to give financial aid to China and

WHEREAS such financial aid will enable China to strengthen greatly its war efforts against the common enemies by helping China to

- (1) Strengthen its currency, monetary, banking and economic system;
- (2) Finance and promote increased production, acquisition and distribution of necessary goods;
- (3) Retard the rise of prices, promote stability of economic relationships and otherwise check inflation;
- (4) Prevent hoarding of foods and other materials;
- (5) Improve means of transportation and communication;
- (6) Effect further social and economic measures which promote the welfare of the Chinese people; and
- (7) Meet military needs other than those supplied under the Lend-Lease Act, and take other appropriate measures in its war effort.

In order to achieve these purposes, the undersigned being duly authorized by their respective Governments for that purpose, have agreed as follows:

- 2 -

ARTICLE I

The Secretary of the Treasury of the United States agrees to establish forthwith on the books of the United States Treasury a credit in the name of the Government of the Republic of China in the amount of 500,000,000 U.S. Dollars. The Secretary of the Treasury shall make transfers from this credit, in such amounts and at such times as the Government of the Republic of China shall request through the Minister of Finance to an account or accounts in the Federal Reserve Bank of New York in the name of the Government of the Republic of China or any agencies designated by the Minister of Finance. Such transfers may be requested by and such accounts at the Federal Reserve Bank of New York may be drawn upon by the Government of the Republic of China either directly or through such persons or agencies as the Minister of Finance shall authorize.

ARTICLE II

The final determination of the terms upon which this financial aid is given, including the benefits to be rendered the United States in return, is deferred by the two contracting parties until the progress of events after the war makes clearer the final terms and benefits which will be in the mutual interest of the United States and China and will promote the establishment of lasting world peace and security. In determining the final terms and benefits full cognizance shall be given to the desirability of maintaining a healthy and stable economic and financial situation in China in the post-war period as well as during the war and to the desirability of promoting mutually advantageous economic and financial relations between the United States and China and the betterment of world-wide economic and financial relations.

ARTICLE III

This agreement shall take effect as from this day's date.

March 20, 1942

March 10, 1942  
2:40 p.m.

AID TO CHINA

Present: Mr. Bell  
          Mr. White  
          Mr. Viner  
          Mr. Bernstein

H.M.JR: Is it different? Where does it begin to get different?

MR. BELL: The whole letter is different.

MR. WHITE: Right after "My dear Mr. Welles."  
(Laughter)

H.M.JR: Where you say "I would insist," make it, "I would have insisted."

MR. BERNSTEIN: I think that phraseology has been changed a little bit, Mr. Secretary, to meet this last suggestion.

H.M.JR: Yes. "I would have," don't you think?

MR. BERNSTEIN: Where it says "continue to insist"?

H.M.JR: No, I said, "If there were not overbalancing political and military considerations, I would insist upon," and so forth. Make it, "I would have insisted."

MR. WHITE: I don't think you should be the judge of that, Mr. Secretary. That is what you are asking them to judge, because you still can insist if they say so.

- 2 -

H.M.JR: Oh, I see. Well, I say, "In all my participation and in my testimony before the House and the Senate."

MR. VINER: Well, that is changed.

MR. WHITE: We have changed that, and I think it is better.

MR. BELL: We have said, "in our conferences between the two Departments."

H.M.JR: Well, I would certainly say something about my testimony before the House and Senate.

MR. VINER: But here your - they are supposed to know what the purposes are, too. You are throwing it back on them.

H.M.JR: All right. It is all right.

MR. BELL: Well, we have changed it a little.

H.M.JR: Well, when it is ready somebody--

MR. BELL: It will be ready in five minutes.

H.M.JR: When it is ready if somebody can walk it in to me.

My dear Mr. Welles:

I have your letter of March 9, 1942, in which you question the desirability of eliminating Article II from the draft of the Agreement presented to Dr. T. V. Soong.

I would welcome any provisions in the financial arrangement with China which would protect the financial interests of the United States, as well as promote the most effective economic use of the funds by the Chinese. If there were not overbalancing political and military considerations, I would insist upon the retention of Article II of the original draft, and even inclusion of stronger provisions. But it has always been agreed at meetings between State and Treasury Departments that the purposes of the financial aid were predominantly political, diplomatic, and military. These considerations therefore have determined the formulation of the terms of the Agreement which was submitted to the Chinese.

As you know, the first draft handed to the Chinese Government included Article II calling for consultation and exchange of information. However, in view of Generalissimo Chiang Kai-shek's reactions to Article II, and of his request that it be omitted, communicated to us in the letter from Dr. T. V. Soong to the State Department, the Treasury was unwilling to risk jeopardizing the important political and military value of this financial aid by insisting upon the retention of Article II in the Agreement and therefore raised that question with the State Department.

In light of the fact that the determination of the inclusion or the exclusion of Article II turns almost wholly on questions of political character, and in view

(20)

- 2 -

of our telephone conversation of today, I should like to have you advise me as to what our next step should be in replying to the Generalissimo.

2 Since I feel that time is of the essence and that we should consummate this Agreement without delay, I would appreciate an answer from you on this matter as soon as possible.

Sincerely yours,

(Signed) W. W. [unclear]

Secretary of the Treasury.

Honorable Sumner Welles,

Under Secretary of State.