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BRITISH MOST SECRET
(U.S. SECRET)

OPTTEL No. 87

Information received up to 7 A.M., 15th March, 1942.

1. NAVAL

The enemy ship which was attacked in the Channel yesterday was probably hit by a torpedo and is now in LE HAVRE.

Two E-boats were probably sunk and an enemy destroyer hit by gunfire. Our destroyers received superficial damage.

One of H.M. destroyers and a merchant ship were sunk during an attack on a coastal convoy off CROMER early this morning. One E-boat was damaged. An E-boat was also damaged in an ineffective attack on a convoy off SUFFOLK on the night 14/15th. A Junkers 88 was destroyed while attacking a coastal convoy last night.

2. MILITARY

LIBYA. 13th. Resistance by enemy patrols tended to increase during last few days. Free French troops have now returned to CHAD territory from southern FEZZAN. Five station posts were captured during the operations with negligible losses.

HURMA. 12th. All quiet PROME Road Sector. An attack by our troops in SHWEGYIN area reported progressing favourably.

RUSSIA. Russian attacks are continuing in RMHEV area. Heavy fighting is taking place in the YUKHNOV area.

3. AIR OPERATIONS

13/14. COLOGNE. 112 bombers dropped 98 tons of high explosive and 24,300 incendiaries, including 186 of 250 lbs, representing about another seventy tons. Many large fires seen in the centre of the city, near a railway junction and just west of the main station. Eighteen R.C.A.F., twelve R.A.A.F. and four New Zealand aircraft took part. One R.A.A.F. bomber is missing.

14th. During three offensive operations over the Channel, in two of which aircraft of Coastal and Bomber Commands were given escort, Spitfires destroyed ten enemy fighters and probably two more without loss.

14/15th. Enemy activity consisted mainly of anti-shipping and sea-mining operations in the BRISTOL CHANNEL and THAMES ESTUARY.

LIBYA. 13th. Fifteen dive bombers, escorted by nine Italian fighters, attacked TOBRUK. Kittyhawks destroyed two fighters and anti-aircraft shot down one bomber and damaged another.

MALTA. 14th. HAL FAR aerodrome raided by fifty-eight aircraft. Numerous craters made and one Hurricane destroyed on the ground. Spitfires and anti-aircraft accounted for one fighter, probably destroyed two and damaged two.



TREASURY DEPARTMENT
WASHINGTON

March 18, 1942

MEMORANDUM FOR THE SECRETARY:

You asked me this morning for comment on a proposal by Senator Brown to require the payment of overtime wages in the form of a special non-interest-bearing, non-transferable, non-redeemable security, to be cashable by the holder after the war, in installments.

I would comment as follows:

1. The proposal is for forced savings, which you have consistently opposed. On March 6, in testifying before the Ways and Means Committee, you said, "At this time I hope the committee will not force on me forced savings in any form, because we are getting under way nicely the voluntary pay-roll deduction plan. That should be given a thorough trial."

2. The proposal is discriminatory. It would reach only one class of people, the wage-earners, and only some of those, and would leave all other classes untouched--investors, self-employed, farmers, white-collar workers, etc.

3. As to those affected, the plan would be confiscatory. It would confiscate some fraction of wages, large or small according to the length of the war.

4. It is questionable whether a valid statute could be drawn to effectuate the plan on a compulsory basis. In view of its discriminatory and confiscatory aspects, the proposal might very well be found unconstitutional.

Larry Bernard, with whom I have consulted informally, concurs with me in this view.

5. A voluntary plan for the investment of overtime wages in a security such as is described above could undoubtedly be worked out, although it would probably require legislation. I would, however, question the wisdom of our attempting to promote the sale of a non-redeemable, non-interest-bearing security at this time, in competition with interest-bearing, redeemable savings bonds.

Conclusion

I believe that the Department should not give its indorsement to Senator Brown's proposal, but that we should continue the effort to induce workers generally, along with all other citizens, to invest a fraction of income regularly in the present Defense Savings securities, on a voluntary basis.


GRAVES

RESTRICTED

MID 319.1
Situation
8-11-41

No. 659

M.I.D., W.D.

11:00 A.M., March 15, 1942.

SITUATION REPORT

There is nothing to report.

A situation map will not be issued this date.

RESTRICTED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 16, 1942

TO Mrs. McHugh
FROM Mr. Kuhn

We tried to make an appointment, but the Secretary had to postpone it until Mr. Disney's next visit.

F.K.

March 9, 1942

Ferdinand Kuhn, Jr.
Secretary Morgenthau

I want to see Disney when he is here. Please
take it up with me Monday morning so that we can make
an appointment.

Dinnered at 9.30 - 3/9 -

Follow up 3/12 -

*Report to Secy 3/9
Kings not in Wash 3/11
Disney will have left by
evening of 3/11 -
Kings could not see - finished*

March 16, 1941.

Mr. Ferdinand Kuhn
Secretary Morgenthau

I am very disappointed that we have got no where on our tax publicity program. John Sullivan was supposed to do something to back up my Cleveland speech. Nothing has happened. Did I not appoint a Committee to handle this? I suggest we use some of these favorable tax letters.*

Please speak to me.

*See Pages 15 and 18 of Mrs. Forbush's Mail Report for 3/13/42.

Followed up with Kuhn 3/19 - finished Per Kuhn -

March 16, 1942
9:15 a.m.

GROUP MEETING

Present: Mr. Paul
Mr. Sullivan
Mr. Haas
Mr. Buffington
Mr. Gaston
Mr. Graves
Mr. Thompson
Mr. Blough
Mr. Viner
Mr. Bell
Mr. Foley
Mr. White
Mrs. Klotz

H.M.JR: Where is Sullivan? I wanted Sullivan and Paul.

MR. BLOUGH: I didn't check.

H.M.JR: Did you go on the Hill with him, Roy?

MR. BLOUGH: Yes.

H.M.JR: I don't think you are this morning.

Norman, while we are waiting, I can't remember, it is a week or ten days ago, I asked some of you to get together on this question of coordinating. You were away that one day.

MR. THOMPSON: Yes.

(Mr. Haas entered the conference.)

H.M.JR: Where does that thing stand now? I referred it to your office.

MR. THOMPSON: I gave you a report on it the day following.

H.M.JR: Did you?

MR. THOMPSON: Yes.

H.M.JR: Could you dig it up and walk it in?

MR. THOMPSON: Yes.

H.M.JR: Is that where it stands?

MR. THOMPSON: I assume so. I made a recommendation there, but I think it is all taken care of by Mr. Gaston.

MR. GASTON: I spoke to you about it that same day. I gave orders immediately to have Maloney in New York put in charge of that--

H.M.JR: That isn't what I mean. Should Irely stay on exclusively as coordinator or should he go back to Revenue Intelligence?

MR. GASTON: That is not what Norman is referring to. We are ready to make our recommendation on that.

H.M.JR: That is what I meant. You people are ready on that?

MR. GASTON: We are ready, yes.

H.M.JR: Well, sometime this morning. Who else is in on that?

MR. GASTON: John Sullivan.

(Mr. Paul entered the conference.)

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H.M.JR: Good morning, Randolph. I won't keep you any longer than necessary.

MR. PAUL: O.K. I was just studying my lesson.

H.M.JR: Well, as soon as Sullivan comes, I want to bring up something that affects both of you.

Thompson?

MR. THOMPSON: Senator Tydings has sent a questionnaire to practically all of the sections and the bureaus and divisions chiefs in the Department on personnel and space. It is a very disorderly and abusing way to send a questionnaire around.

H.M.JR: Why do we have to do that? Why?

MR. THOMPSON: Well, there is a Senate Resolution--

(Mr. Sullivan entered the conference.)

H.M.JR: Come up here, John, where I can see you. Let's just wait a minute. John, and Paul, on the twenty-eighth of January I had a meeting in my room at which Kuhn was sick, Sullivan, Foley, and Paul were present. I brought up the question about who was going to follow up on my Cleveland speech and the machine says this. We were discussing the thing. I say, "Well, who wants to say 'I will take the responsibility in consultation with other people in the Treasury to see this thing through'?" And the answer was, Mr. Sullivan, "I will do it."

MR. SULLIVAN: That is right.

H.M.JR: Now, what is the situation on that?

MR. SULLIVAN: Well, we are waiting until the outcome of the Rules Committee today. After that meeting Mr. Buffington and Mr. Morris and Mr. Kuhn and Paul, Mr. Gaston and I met and discussed different people. There was the Knollenberg interlude. After that, Mr. Gaston got Mr. Clevenger down from New York. We talked with

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him, and I think about two days after that was the hearing on the Cochran bill before the House Ways and Means and that is hanging fire, and this morning it is coming up before the Rules Committee.

Mr. Paul and I are agreed if that bill passes that definitely ends any chance of effectuating the Cleveland speech.

H.M.JR: Yes, but we talked about Epstein, and we were going to have somebody follow through, get people to speak.

MR. SULLIVAN: That is right.

H.M.JR: But nothing has happened?

MR. SULLIVAN: That is right.

H.M.JR: You haven't got anybody doing it?

MR. SULLIVAN: No.

MR. GASTON: Clevenger seemed to be quite anxious to undertake it.

H.M.JR: Let's call a spade - nothing is being done right now?

MR. SULLIVAN: Not a thing, sir.

H.M.JR: It is kind of tough on me. I mean, I went out - I forget when I spoke in Cleveland - and made this speech. This meeting is the twenty-eighth. I don't know when I spoke in Cleveland. From this day on - I mean, nobody has just gone out from the Treasury to back me up. What are we going to do about it?

MR. SULLIVAN: I think it depends entirely on what happens today on this bill.

H.M.JR: But let me put it - let me raise another question. I mean, this wasn't - it was the question of

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getting backing on the fight on states and municipals.

MR. SULLIVAN: That is right.

H.M.JR: And outside of my speech, nothing has happened.

Now, let me get the thing. There is this Mrs. Catt, a woman of over eighty, a very influential woman, comes out, most prominent among women's writers, and makes a statement attacking us on our joint returns. There is something that should be handled automatically. Two, yesterday in the New York Times, three or four columns by Stolper, and today, a very tricky answer, editorial in the New York Times, in which it said - well, they take my figures, part of my figures, but the other part are no good because they are based on the TNEC which is all wet, see. At four o'clock this afternoon undoubtedly they will ask me about the Stolper letter or the answer, because he says we are fallacious, and he is intellectually dishonest and the drive is on for the sales tax and lowering the exemptions. Now, who in the Treasury, because the days aren't long enough, is going to watch the papers, somebody in taxes on - like Stolper, state and municipal taxes, a woman like Mrs. Catt, who in the Treasury can I turn to and who will say, "We are watching the papers and we are backing you up, and if you make a speech in Cleveland, don't worry, Boss, we will back you up." Who is really going to do that?

MR. PAUL: Mr. Secretary, I think there are two aspects of that. There is the backing you up from the point of view of giving you answers, and there is another completely different aspect which is backing you up from the standpoint of organizing publicity.

Now, I would like to have that responsibility fixed. I will come in any time and back you up from the standpoint of whether you are right or wrong and what you should say to the press. I am willing to do the other if you want me to, but I think there isn't any centralization of responsibility there.

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H.M.JR: Well, frankly, I thought that - there has been a shift since that - but on the twenty-eighth of January the responsibility for getting people to speak and go out would be Sullivan's.

MR. SULLIVAN: There wasn't any question about that at all.

H.M.JR: And I don't see that - despite the cleavage that you (Paul) make - now anybody get in on this that wants to - I mean, we have got a program, and then there is the question of getting people to back us up. There is this thing that they are doing, trying to get Green and what's-his-name to come in here and make a joint thing, and there is a question of what you people would - I certainly am not going to do it. It is silly for me to have to watch it. But at four o'clock today somebody ought to say, "We will have an answer for you on the New York Times editorial, and we will have an answer on Stolper's letter of yesterday, so if you are asked at press," and so forth, and somebody constantly stirring up people to back up the Treasury. I don't see that - I think it is all one.

MR. SULLIVAN: Mr. Gaston and I wanted to talk to you this morning on Clevenger.

H.M.JR: What do you think, Herbert? How should this be fixed?

MR. GASTON: Well, I think, as Randolph says, there are two different things, but at the same time one person can handle those two different things. I think we ought to have somebody in here to handle it. I don't think anybody here now has time to give attention to all of it, or is equipped to. I think we should have somebody in as soon as possible if we decide to go ahead and fight on that.

H.M.JR: Well, that was the purpose on the twenty-eighth. That is what we said on the twenty-eighth of January. You were in on that.

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MR. GASTON: Yes.

H.M.JR: That is a long while.

MR. GASTON: I did give a lot of material to some people who held a meeting up in Mrs. Pinchot's home, but that was a small matter.

MR. PAUL: Well, I am certainly giving material to people.

H.M.JR: Yes, but I want to talk to somebody. I want somebody to make suggestions. I want somebody to get speakers. I want somebody, as I say, that I don't have to be needling. I want somebody to be thinking about this thing. Let's just take these two people and this question of - now, there was this executive meeting of the governors. Who is contacting the Committee of Governors? Who is contacting the mayors? There is all this stuff to be done.

MR. PAUL: Well, if you will just say who you want to do it definitely and put the responsibility in one centralized place, then it is a question of getting men - no one person here can do it all. It is a question of organizing and getting people to go out here and there and perhaps having a man versed in publicity and all that sort of thing.

MR. GASTON: I think this man we spoke of could do a good job on it. He did this B.M.I. fight against the Ascap. He did a very good job on it.

H.M.JR: What is his name?

MR. GASTON: Russell Clevenger. He is an ex-New York Times financial writer.

MR. PAUL: I thought he was an able chap, didn't you, John?

MR. SULLIVAN: Very.

MR. GASTON: He is willing to come.

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H.M.JR: Why don't we take him on?

MR. GASTON: Well, we had him down here two weeks ago, and he indicated he was willing to come, but we have been waiting on this--

MR. SULLIVAN: We have been waiting on the Cochran bill, Mr. Secretary.

MR. PAUL: Yes, but I think we need something anyway, irrespective of this particular point.

H.M.JR: I don't see why you have got to sit back and wait on the Cochran bill. Take joint returns, for instance. Take the slew of stuff that is in every paper on sales tax. I finally got that sales tax story over myself and they have got the figures; and, incidentally, I want - I have got to borrow Blough this morning to have that answer on the Stolper article, and unless there is somebody else - and the editorial in the Times today.

MR. PAUL: Shere can go up with me. That is all right.

H.M.JR: Because he is involved. Have you read the two things?

MR. BLOUGH: No.

H.M.JR: Well, get them and after you read them, brief them for me. The whole thing, it all gets back, they say that we based our stuff on TNEC, you see.

MR. BLOUGH: It is not true.

H.M.JR: And that is full of holes. And that TNEC stuff is the thing that this Hildegard Kneeland did, isn't it?

MR. BLOUGH: It depends on what they are talking about.

H.M.JR: It is such an easy thing to go back at the New York Times, and other papers will pick it up and pick it up.

MR. BLOUGH: There is nothing we have done that has any tie-up with the TNEC that I know of.

H.M.JR: Well, if it isn't answered today, all the other papers will run it; and, as I say, the Stolper article yesterday and the Times editorial based on it.

MR. BLOUGH: Right.

H.M.JR: Now what about this man?

MR. SULLIVAN: He is a good man.

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MR. GASTON: And this broadening out of the whole tax job, we were considering it solely from the standpoint of the tax-exempt proposition but covering the whole field is certainly, regardless of the outcome of this--

H.M.JR: Where is this fellow Merillat? He was good. Where is he? You don't think he is any good?

MR. BLOUGH: I say he is in Honolulu, isn't he?

MR. GASTON: He is with Foreign Funds somewhere.

H.M.JR: Was he good, Roy?

MR. BLOUGH: I don't know if he would be any good on this job. He did a very nice job in writing up the tax sentiment.

H.M.JR: What is he doing in Honolulu?

MR. FOLEY: I don't know.

H.M.JR: Let's bring him back to Washington, Norman. He worked in Roy's shop.

MR. BLOUGH: He worked with Mr. Tarleau, but he is not a trained publicity man. He wrote a very nice summary of news.

H.M.JR: No, but take a trained publicity man, could he prepare the stuff for him?

MR. BLOUGH: That I think he could do.

MR. GASTON: Covering the whole field, the man will need help.

MR. SULLIVAN: I think Merillat would make a very good man for him, Mr. Secretary, especially if we decide on Clevenger who comes in from the outside and who is not familiar with all of these things that Merillat knows so thoroughly.

MR. BLOUGH: I would agree with that statement.

H.M.JR: All right, let's get him back. Well, then, it gets down, where should this go? I mean, who should

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he be responsible to, this fellow Clevenger? I mean, whose group, who is going to follow all the things and is going to back up the Treasury, where does he go to?

MR. PAUL: Well, that is up to you. He can go to John, or he can go to me. He ought to go to somebody that is right in touch with the program all the time.

MR. SULLIVAN: I think he ^{will} have to be very closely in touch with Randolph at all times regardless of whom he goes to, Mr. Secretary.

H.M.JR: You do? All right, will you take it, Randolph?

MR. PAUL: Sure, I will take it if I can get the help, which I assume I can. I will get after Mr. Clevenger today, and we will get the other man back to help him, and we will head it up that way, if you say so.

H.M.JR: Then the idea is to work this thing up.

MR. PAUL: That is right. We will work it out right away.

H.M.JR: What?

MR. PAUL: We will work it out right away.

H.M.JR: All right. You are excused.

(Mr. Paul left the conference.)

H.M.JR: Did I get you (Sullivan) out of bed?

MR. SULLIVAN: No.

H.M.JR: You mean yes. I mean not the sick bed?

MR. SULLIVAN: No. Two no's.

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H.M.JR: After hearing all this coughing, I think we will get rid of these people. The President said - told the story, it took half an hour to tell it at Cabinet, about how this man and wife who went down somewhere in Mexico to visit this lost tribe for a year, ninety people were living there, the Indians. They said, "Well, aren't they imbred and sick?" He said, "No, they have just got one rule there. If anybody in the tribe gets a common cold, which they get, they just point a finger at him and he has to leave the tribe for one week."

MR. HAAS: I am ready to go. (Laughter.)

H.M.JR: That is very good, George.

MR. BELL: That was kind of a forced cough, I think.

H.M.JR: Herbert?

MRS. KLOTZ: Harry looks sick.

H.M.JR: I didn't hear him cough.

MR. GASTON: I expect to have that letter in to you today about foreign representatives.

H.M.JR: All right.

MR. GASTON: I have got a very nice letter from the Coast Guard in Honolulu praising the work of the Narcotics man there who attached himself to the Coast Guard during the emergency. The War Department raised some objection to - out in Seattle to giving these these Lend-Lease figures going on Army transports, and I called up Patterson's office, and I think that got things straightened out so they will let us have the stuff.

H.M.JR: Who objected to it?

MR. GASTON: The Transport Service of the War Department. Some of those shipments are going on transports,

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and they wouldn't give the Customs Agent the figures until they got orders from the War Department, so I think we have got that thing straightened out. You might be interested to know that the Saturday Evening Post has fired Stout because of his isolationist attitude. They are cleaning house on the editorial staff. Fuller is behind it, the general manager. I think they will get rid of Garet Garrett, who has been doing the isolationist stab-in-the-back editorials. I suppose you looked at that material that Grant gave you.

H.M.JR: I turned it over to Sullivan.

MR. GASTON: We don't find anything wrong with Hennigan other than the fact that he is making about forty-five or fifty thousand dollars a year, and I don't know why such a man who is making that in the law practice wants to be connected with the Internal Revenue.

H.M.JR: I know a man who is making a hundred thousand dollars a year and wants to be Alien Property Custodian. (Laughter.)

MR. GASTON: Well, that is a little more attractive proposition, I would say. I would like to go to New York to spend the day tomorrow if you don't mind.

H.M.JR: That is all right.

MR. GASTON: It is on Harvard protection matters. Waesche is going up.

H.M.JR: What is the banquet?

MR. SULLIVAN: Friendly Sons of St. Patrick.

H.M.JR: O.K.

MR. GASTON: That is all.

H.M.JR: Have you got an inspection up there too, Ed?

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MR. FOLEY: I could.

H.M.JR: What is on your mind?

MR. FOLEY: Have we decided who is going to appear before the Rules Committee on the Cochran bill?

MR. SULLIVAN: That is what - both Randolph and I are going, and we are going to take Chuck with us.

H.M.JR: What else do you have?

MR. FOLEY: Nothing.

H.M.JR: Stay behind.

MR. BUFFINGTON: Mr. Disney saw Mr. Cole of the Reader's Digest.

H.M.JR: Mr. who?

MR. BUFFINGTON: Mr. Cole of the Reader's Digest. They are very favorable to that idea, and Roy Disney is coming down Tuesday or Wednesday to discuss some further things. Our Donald Duck picture ends today.

H.M.JR: What do you mean?

MR. BUFFINGTON: They are going to stop showing it. They have shown it in close to twelve thousand theaters.

H.M.JR: And they are going to stop showing it in--

MR. BUFFINGTON: Yes. They feel they have covered practically the entire field.

H.M.JR: Supposing the theater wants it.

MR. BUFFINGTON: They will let them have it. They are keeping fifty reels in reserve for any requests they may have.

H.M.JR: Are there any letters you could write to that one man in particular who has done such a good job?

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MR. BUFFINGTON: Do you mean Miss Spitzer.

H.M.JR: On the distribution.

MR. BUFFINGTON: Oh, Herman Robbins. I think it would be a nice thing to write a letter.

H.M.JR: You write a letter and I will sign it.

MR. BUFFINGTON: That is all.

MR. BLOUGH: Mr. Sullivan may want to bring this up, but Mr. Tugwell has been trying to get us to send somebody to help him as a fiscal adviser. He wants us to pay the bill, and we have been trying to figure out what to say about it. I think he talked to you some time ago, perhaps.

H.M.JR: We can't do it. They will have to pay the bill. Harold, afterward, if you would take care of this, for me, and put in some words. She has discovered Taxes To Beat The Axis, and she has written words to the song, Deep In The Heart of Texas. Look her over and see if I ought to meet her. The words aren't bad.

MR. GASTON: Bob Burns is the fellow that started that Deep In The Heart of Taxes.

H.M.JR: Is it? It is a good song. Anything else, Roy?

MR. BLOUGH: Deep In The Hurt of Taxes, Mr. Tarleau said the other day, and I thought it was very good. No, I have nothing.

H.M.JR: George? Deep In The Hurt. You can sing that song to Sam Rayburn.

MR. HAAS: Here is that report. I will have another one at four o'clock today.

H.M.JR: Look, as I remember, they got me kind of confused on this thing.

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MR. HAAS: I wonder if it would. That first sheet is the one you saw the first day of Philadelphia alone. Now, the second sheet is all Russians at any port.

H.M.JR: Oh.

MR. HAAS: This is all Russian, including the Gulf and other places, Boston and New York. This is Philadelphia beginning back at that Monday and crosses out those that sailed since March nine. It is just for Philadelphia and that is all Russian.

H.M.JR: But these are the ones which have sailed?

MR. HAAS: Yes, these are for Philadelphia. You asked for them specifically.

H.M.JR: Well, we will run it that way. There are only two that have sailed?

MR. HAAS: That is right.

H.M.JR: Would you, Norman, call up the Under-Secretary of War's office and ask him if he would give me the set-up which General Somervell now heads in regard to transportation. There is General Somervell, the Maritime Commission and Joe Eastman, the Railroads. Now, they met Friday and had some kind of a set-up under General Somervell, and I would like to know what it is, and there must be some order on it, you see, and I would like a copy of it. Now, this is the Federal Reserve System program?

MR. HAAS: Yes, sir, and the notes on that meeting.

H.M.JR: Right. Now, aren't you (Bell) testifying today?

MR. BELL: Yes, ten thirty.

H.M.JR: If I want to go to school with George this morning, that is all right, isn't it?

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MR. BELL: Yes.

H.M.JR: And then why don't we have a - I can meet with you at three fifteen, Bell, on this thing.

MR. BELL: All right.

H.M.JR: George doesn't have to go up with you on the Hill, does he?

MR. BELL: I don't think so. It is just that amendment. I hope not to be there more than a half hour.

H.M.JR: I will be ready for you a little while later, George. John?

MR. SULLIVAN: We have had some figures in that aren't too definite, but indicate the collections and at least in these two offices, they are running about three times what they were at the same period last year.

H.M.JR: In dollars?

MR. SULLIVAN: In dollars. In one instance, eighteen million against six, and in another instance twenty-one against seven. In the Indianapolis office last year up to, I think it was the seventh of March, they had fifty-five thousand taxable returns. This year they have a hundred and fifty-three and of the hundred and fifty-three, a hundred and sixteen thousand paid in full.

H.M.JR: Could I have a little note of that for my four o'clock press?

MR. SULLIVAN: I will get you all the figures that are available, but I doubt if it is wise to give them out, sir.

H.M.JR: Well, a few spot checks wouldn't hurt.

MR. SULLIVAN: All right.

H.M.JR: The boys will want something. I would like to have them.

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MR. SULLIVAN: I will get you what I can.

H.M.JR: I would like to have something on it.

MR. SULLIVAN: All right.

H.M.JR: What else?

MR. SULLIVAN: We thought it might be nice if we drew up some kind of an honor scroll to give to these fellows who have been so helpful in giving us billboard advertising space, and radio stations, and the editors and what not. I would like to draw one up and show it to you and see what you think. They have really been very responsive.

H.M.JR: I have heard practically nothing on the radio about paying your taxes. Over the week-end on the farm I listened a lot. There is just as much Defense Bonds, but I don't think I heard a single announcement about paying your taxes.

MR. SULLIVAN: Well, I made three five-minute transcriptions which were sent to eight hundred seventy-two different stations, and I have heard a great deal from that. I mean, people who knew me heard it.

MR. GASTON: I heard several during the week on the local radio, about paying your taxes before the sixteenth.

H.M.JR: I just didn't hear a word.

MR. BLOUGH: These morning programs that are supposed to get you up and off in a cheerful mood have been talking taxes lately. (Laughter.)

H.M.JR: Well, I was surprised at the attitude toward me. Mrs. Morgenthau and I went to the theater last night. It showed a glorified vaudeville. They first called on Douglas Fairbanks Jr. who was there. He got just a little hand, and then they announced that I was in the audience. He didn't say anything about taxes, but after all they know it; and I was amazed how friendly the audience was. They couldn't find me. This man said, "My God! Don't tell me he is up in the balcony." (Laughter) But I was amazed.

MR. GASTON: Was that here or in New York?

H.M.JR: In New York.

MRS. KLOTZ: What was it?

H.M.JR: Priorities of '42. It is terrible. Harry?

MR. WHITE: Nothing sir.

H.M.JR: Wonderful. How much pressing is this thing that you have written me about with the English and Dean Acheson?

MR. WHITE: Nobody is pressing me.

H.M.JR: Wonderful.

MR. BELL: On this amendment apparently there is quite a bit of opposition to Byrd, more because Byrd offered it I think than anything else. I thought I would take the position that we have no objection to it unless it is going to delay the bill and we wouldn't want it to do that.

H.M.JR: Oh, I would kind of throw my weight a little bit against it.

MR. BELL: I think the committee will do that.

H.M.JR: Well, I will tell you, I don't know what Larry Bernard found but the thing that worries me is,

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this is a sort of an over-all control of all of these independent agencies, and I don't think that is the way to do it. That is what George told me.

MR. BELL: I don't think so. I think all you do is just put in the hundred and twenty-five billion dollar limit the authority to issue guaranteed obligations. Eventually it will be there anyhow when we take them over. That is all I can read into it, and what we did do is put on another paragraph which tied up the guaranteed debt with the gross public debt. He wanted them in the same statement. I think we can do that without legislation, and I would rather do it without legislation.

H.M.JR: But don't try to - try to stay as neutral as you can. Put your heels against it and haul back, will you?

MR. BELL: All right.

H.M.JR: Haul back.

MR. BELL: I will try.

MR. THOMPSON: I think on this Tydings resolution, I will get up an answer for the whole Treasury Department.

H.M.JR: Look, supposing every other Senator is going to send us something. He isn't chairman of anything.

MR. THOMPSON: Well, this is Senate Resolutions.

MR. BELL: He is Chairman of the Subcommittee.

MR. THOMPSON: The purpose is to see if there is surplus personnel and space that can be used for the war effort. I think as far as Treasury is concerned, it is a waste of effort to go through it.

MR. WHITE: Have you taken a glance at it, Mr. Secretary? It is terrific. I have never seen anything like that questionnaire.

MR. THOMPSON: He sent two hundred thirty-five of them.

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H.M.JR: Well, why don't you go up and call on whoever did that for Mr. Tydings and say it is--

MR. THOMPSON: Yes. We checked with them up there, and the Senator's idea is that if he can get direct information from the officials, he will have a definite picture. Most of the questions could be skipped by the majority of the people.

H.M.JR: You mean he doesn't want it from me?

MR. THOMPSON: Well, he does want it. He wants to see if what they give him checks with what you give him.

H.M.JR: Well, I will leave it with you.

MR. THOMPSON: I will get up a report for the whole Department.

MR. BELL: There are three or four committees up there doing the same thing.

H.M.JR: I know.

MR. FOLEY: Mr. Secretary, may I bring up one thing? There is an oil tanker down in Port Arthur that has been immobilized down there for some time, and Dean Acheson called up Friday afternoon and said that they were terribly anxious not to have her seized but to turn her over to the Spanish to take some oil to Lisbon. She was owned by a Greek refugee who went to Madrid and was jailed there. He is supposed to be out now, and Foreign Funds has taken the position that we don't know whether or not he is acting under duress and have refused to license the transfer of the tanker to Spanish registry.

Now, I told him that I would speak to Foreign Funds about it and ask them who would handle the matter with the State Department in case our boys wanted to argue. Well, our boys did want to argue, and Feis called me on Saturday and the upshot of it was that I said we wouldn't release her until we had a letter from the State Department saying

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as a matter of high politics, international politics, it was essential that she be turned over to Spain, because ordinarily we wouldn't do it, and if it is a political matter we would want it in writing, so that is the position. They went back and called me back about five o'clock Saturday and said, "No letter," and I thought maybe you might hear about it.

H.M.JR: Very good.

March 16, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Editorial in New York Times, March 16, 1942.

The point featured in this editorial is that on the basis of National Resources Planning Board figures, one-third of all the consumer units of the country (families and single individuals) have incomes of less than \$780 a year, while two-thirds have incomes of less than \$1,450 a year; and also that families and single individuals having income of less than \$2,000 comprise 82 percent of the consumer units and account for 60 percent of consumer purchases.

The main point of the editorial is summed up in the following sentences:

"If these figures are correct, it appears that a substantial majority of all consumer units accounting for a very large part of all consumer expenditures must be exempt from income tax." The question is: "Whether it is not necessary in one way or another to dip still further into the current purchasing power of those units which, despite their low incomes, constitute the majority of consumer units, in order to prevent the still greater hardship of inflation."

Comments:

(a) The National Resources Planning Board figures cited by the editorial are for 1935-1936. Incomes have risen substantially since then. According to more recent estimates made by the Office of Price Administration on the same basis as the National Resources Planning Board estimates, in 1942 only one-sixth (instead of one-third) of all consumer units will receive incomes below \$780, and slightly less than one-half (instead of two-thirds) will receive incomes below \$1,450 a year;

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and families and single individuals having incomes of less than \$2,000 will comprise two-thirds (instead of 82 percent) of the consumer units. We estimate that families and single individuals with incomes less than \$2,000 account for about 50 percent (instead of 60 percent) of consumer purchases.

(b) Some families with incomes over \$2,000 will not be subject to tax because of the credit for dependents; on the other hand, some families and many single individuals with incomes below \$2,000 will be subject to tax. In all, it is estimated that in 1942, under present exemptions, about one-third of all persons receiving incomes will be subject to the income tax. These persons will account for more than 55 percent of the total income received by all persons and for about half of all consumer purchases.

(c) The revision in figures does not change substantially the policy question posed by the editorial. Although the problem is somewhat less serious than the editorial suggests, it is true that about half of the consumers' purchasing power is not reached at all by the income tax and substantially half of the balance is largely relieved by the exemptions to people paying some ^{income} tax.

TAXES AND CONSUMPTION

Secretary Morgenthau believes ~~that~~ the new tax bill must withdraw purchasing power, but he opposes any further broadening of the tax base or any suggestion of a sales tax. In support of this position he has advanced two arguments: First, that the burden of taxes upon the income groups now exempt from income taxes is already very heavy; second, that those with incomes below the exemption levels do not have purchasing power sufficient to cause inflation. The first of these arguments will be readily conceded. It has, in fact, been used repeatedly by opponents of this Administration in arguing that the burden of high Government spending fell heavily in hidden taxes on the poor. The figures cited by Mr. Morgenthau showing that a single person with \$750 income pays \$130 in taxes or 17.3 per cent of his income and a married person with \$2,500 pays \$250 or 16.7 per cent correspond fairly closely with the findings of Dr. Gerhard Colin and Miss Helen Tarasov in their monograph for the Temporary National Economic Committee, called, "Who Pays Taxes?" But it should be remembered that this burden is not the result of defense taxes. It existed before the defense program began.

The second argument made by Mr. Morgenthau, that the income groups below the exemption levels do not have sufficient purchasing power to cause inflation, requires more examination and some proof. The Treasury calculates that, giving effect to personal exemptions and normal deductions, no income tax is paid by single persons with \$832 a year, married persons with \$1,664 a year and married persons having one dependent with \$2,106 a year. But the National Resources Planning Board has calculated that one-third of all the consumer units of the country (families and single individuals) had incomes of less than \$700 a year, while two-thirds have incomes of less than \$1,450. On the basis of these figures, which the Administration has widely published in recent years, a very large part of the consumer units of the coun-

try must be excluded from direct income taxes. The same source is responsible for figures showing that families and single individuals having income of less than \$2,000 comprise 83 per cent of all the consumer units in the country and account for 80 per cent of all consumer purchases. If these figures are correct, it appears that a substantial majority of all consumer units, accounting for a very large part of all consumer expenditures, must be exempt from income tax.

If there were no war and no armament program, there would be no occasion to consider the need for reducing purchasing power in these lower income groups. Rather, as in the recovery period, we should be considering ways of increasing their purchasing power. If it were possible to wage the war to victory without reducing the national living standard, the problem would not arise. But the facts, as admitted by every one, including Mr. Morgenthau, are that civilian consumption must be curtailed. Price Administrator Henderson says that the volume of goods for civilian consumption "within a few short months will be not much above 1932." In 1943, he says, "we shall surely fall below 1932." The Department of Commerce says that national income this year will be three times the level of 1932.

In one way or another this discrepancy between income and the supply of goods will be reconciled. If it is not reconciled by taxing and borrowing away from all income groups a large amount of their purchasing power, it will be reconciled by an inflation of prices. The question at issue is not to be solved by pointing to the burden of hidden taxes now resting on the poor. It is a question of whether it is not necessary in one way or another to dip still further into the current purchasing power of those units, which despite their low incomes, constitute the majority of consumer units, in order to prevent the still greater hardship of inflation. Let us have some sound statistical evidence on this score from the Treasury and other interested departments of the Government in order that the decision may be based on facts and not upon recrimination.

March 16, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Comments on the letter of Mr. Gustav Stolper, published in the New York Times, Sunday, March 15, 1942.

The principal points made by Mr. Stolper against the Treasury position, together with comments on them, are as follows:

1. Statement:

Salaries and wages in the three years 1939 through 1942 will have risen \$20 billion. A great bulk of this increase goes to income groups below \$3,000. "Of these \$20 billion, the Treasury actually proposes to draw \$300 million in income taxes."

Comments:

a. The statement appears to be substantially correct with respect to the \$20 billion increase in salaries and wages. There appear to be no studies showing the distribution of this increase but it is probable that a large part has gone to income groups below \$3,000.

b. On 1939 incomes, persons with incomes below \$3,000 paid only \$42 million in individual income taxes, or less than 5 percent of total individual income taxes. On 1942 incomes, it is estimated that at existing rates of tax, persons with incomes below \$3,000 will pay \$750 million, or over 14 percent of all individual income taxes. The increase in rates proposed by the Treasury will almost double the taxes paid by persons with incomes below \$3,000, so that under these higher rates they would pay about \$1,450 million, or more than 17 percent of all individual income taxes.

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2. Statement:

The figures which the Secretary presented relating to percentages of income taken in Federal, State and local taxes were probably predicated on Monograph #3 of the T.N.E.C. "Who Pays Taxes?" Apart from serious statistical mistakes, this study makes two important misqualifications. It qualifies social security payments as taxes and it qualifies real estate taxes as being borne by the tenants.

Comments:

a. The Treasury study was made independently of the T.N.E.C. study. While similar techniques were used, the treatment of certain taxes was materially different. The Treasury percentages of tax are substantially lower than those shown in the T.N.E.C. study.

b. The social security taxes are properly grouped with all other taxes for purposes of measuring the compulsory payments imposed by Government and determining how much of the income at these levels is already being appropriated by the Government.

c. In the Treasury study, real estate taxes were counted in part as taxes on tenants (and owner occupants) and in part as taxes on business, shifted to consumers. This was judged to be the most realistic treatment of these taxes in the light of available data.

3. Statement:

The proposed corporation taxes will not curtail consumption by one dollar. They cut entirely into the savings fund of the Nation and may create ghastly consequences by destroying working capital to operate business in the post-war period. High corporate taxes destroy the incentive to efficient operation.

Comments:

a. We cannot expect other groups to make heavy sacrifices and not to demand increased incomes unless corporate profits are taxed heavily. Public morale can be maintained only if corporations are required to

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pay a large share of the cost of the war.

b. The high corporate taxes will prevent increases in dividends which would be inflationary.

c. The expectation that the proposed Treasury rates will destroy efficiency of operation is a matter of opinion. We do not agree that it will have any serious effect on production or efficiency during the war emergency, particularly since where the tax on any dollar of income exceeds 80 percent such excess shall be placed in a reserve for repayment to finance employment after the war.

d. Since taxes are levied on income they do not reduce working capital unless there has been a mistake in determining income. The Treasury has suggested that provision be made for correcting mistakes of this kind.

Basis of Treasury Tax Plan Regarded as Fallacious

E. Y. Young

Economist Finds Three Dangerous Beliefs in American War Finance Policy Which He Believes Must Be Discarded Immediately to Avoid Disaster

MAR 15 1942

The writer of the following letter is an economist of international reputation and was formerly editor of *Der Deutsche Volkswirt*. During the World War he was head of the Research Department of the Imperial Austrian General Commissariat for War Economy. Later he was a Liberal member for Hamburg of the post-war Reichstag and correspondent of *The Economist* of London. He left Germany voluntarily when the Nazis came into power and is now a citizen of the United States.

There is good reason to believe that the receipts are underestimated and that actually they may exceed estimates by a considerable margin. However that may be, no one familiar with the problem of war financing can take issue with the government that goes to the limits in raising taxes to reduce the war-created deficit. But considering the magnitude of the inevitable deficit, it is in itself rather insignificant whether a few billions more or less are covered by taxes, by borrowing from banks or by borrowing from private sources.

What matters above all are two questions: (1) How to avoid an uncontrollable inflation, and (2) how not to disable industry to cope with the staggering post-war problems it will be called upon to solve.

Price Administrator Leon Henderson estimated the other day, in a speech at Des Moines, that in 1941 the output of consumer goods and services amounted to \$74 billion; against a national income of \$82 billion, and that in 1942 the output of consumer goods will be cut to \$65 billion while the national income may rise to \$102 billion. Of these, he figures, \$22 billion will be absorbed by taxes and normal savings, which would leave \$40 billion available for consumption, or \$15 billion in excess of supply.

Adjusting Estimates

These figures may be arguable in several respects, but they certainly reflect correctly the order of magnitude of our problem. If we try to adjust the calendar year figures of Mr. Henderson to the fiscal year 1942-43 in order to make them comparable to the budget figures, the results might be about as follows, in billions of dollars:

	1942-43
National income.....	\$115
War expenditures.....	55
Taxes.....	30
Consumer goods available.....	60
Income available for consumption and savings.....	35

In other words, in the next fiscal year the gap between potential demand and actual supply of civilian goods will be closer to \$25 than in the \$15 billion estimated by Leon Henderson.

How does the Treasury propose to cope with this problem? Its overall proposals provide for additional revenues from the following sources:

	Millions
Individual income taxes.....	\$5,200
Corporation taxes.....	2,000
Estate and gift taxes.....	350
Removal of special privileges.....	280
Excise taxes.....	1,740
	\$9,610

From this total the Treasury deducts one billion dollars "because of the interrelated effects"; the expected total net increase thus being \$7,610 million. Let us first describe how these tax increases are supposed to be achieved.

British Pay More

As for individual income taxes, the tax-free exemptions of \$750 for single persons and \$1,500 for married people and additional \$400 for each dependent remain unchanged. The Treasury does not propose to reach into the lower brackets. Thus, the American income tax for the small and lower middle income still appears as a very mild affair as compared with the British. Even with the proposed rates it will be just one-third of the British for a married man with two children in the income group of \$5,000. We become remarkably successful with the imitation of the British in the high and highest tax brackets. But we stop imitating in the taxation of capital gains, which go practically tax free in England.

Percentagewise, the increases in the lower and medium brackets look very big; actually, the taxation of the lower income groups remains negligible. The married taxpayer with two dependents at an income of \$8,000 even after the recent proposals—without various permissible deductions—will pay only \$112, or less than 4 per cent. It happens that the income groups up to this level represent 85 per cent of the American people. In other words, even after this second drastic reform of the income tax, it remains the tax of a very small minority. No official estimates are available as to the total additional tax to be raised from incomes up to \$8,000. My own estimate is that it will hardly exceed \$500 million.

TO THE EDITOR OF THE NEW YORK TIMES:

May the author of "This Age of Fable" be permitted to write a short postscript about the American tax policy. It centers around three extremely dangerous fallacies. The first is the belief that nothing but the absolute amount of taxation matters in the fight against the specter of inflation. The second is the belief that capacity to pay is the social criterion for the distribution of the burden. The third is the belief that the cruelty of the war justifies, or calls for, highly questionable economics. These three beliefs have created the sentimental fable of American war finance. It will seriously endanger our war effort unless we discard it now, before it is too late.

On March 3 the Secretary of the Treasury submitted to the House Ways and Means Committee his proposals for the biggest tax bill of all times. Mr. Morgenthau has made for himself a strong place in the fiscal history of the United States by his forceful honesty and integrity. He has not yet succeeded as pioneer to break new ground in an era when the continuation of old routine policy is bound to end in dismal failure.

Arbitrary Presumptions

The fiscal picture of the United States projected in the next budget year (July 1, 1942, to June 30, 1943) is admittedly as arbitrary in its presumptions as that of any other belligerent nation. The budget provides for expenditures of \$90 billion and wishes to raise revenues to, roughly, \$70 billion. This will still leave more than \$20 billion to be covered by borrowing. In order to reach that goal, \$8 billion additional revenue are to be raised, of which \$7 billion are to be derived from taxes and \$1 billion from an increase in Social Security payments.

The New York Times.

Salary Increases

What does that mean? The public was informed the other day that the total national income paid out last year amounted to \$89.4 billion, an increase of \$18.7 billion over 1940. Of the total income payments no less than \$39.7 billion were salaries and wages, an increase of \$10.6 billion. On the basis of the January, 1942, figures already available, we may estimate that salaries and wages in the current year will rise at least another \$5 billion. If this conservative estimate comes through, salaries and wages in the three years of war will have risen in 1942 by \$20 billion against 1939, the last peace year. There is no doubt that the great bulk of this increase goes to the income groups below \$3,000. Salaries of executives, which play a very minor part in the total payroll, have hardly been raised in 1941. Whatever additional purchasing power may have accrued to the upper income groups has been well taken care of by the Treasury.

The principal problem of our tax policy is not how much total taxes will flow into the Treasury. The problem is how to deal with the \$20 billion additional income created by the war, the ongoing tide of money that threatens to cover all dams erected for the protection of our social life, dams which already show necessary leakage as indicated by the sharp and continuous rise in all commodity prices. Of these \$20 billion the Treasury actually proposes to draw \$300 million in income taxes. Nothing can demonstrate the dangerous inadequacy of the American war tax policy more dynamically than this comparison.

Against raising the income tax by \$3 billion there can be little objection except that it has no bearing on the fundamental problem of war finance, even if the \$2.5 billion which are additionally imposed on the income brackets above \$5,000 were not levied at all. This would hardly make much difference in consumer demand, though it would make a great deal of difference in the amount of savings, because it is these income groups who contribute the bulk of the savings. It is a question of social not of fiscal, policy whether we want to squeeze the middle classes by taxation or to bolster them by strengthening their power to save.

New Excise Taxes

The Treasury also proposes a new list of excise taxes. This is supposed to yield \$1,245 millions. As far as tobacco, alcohol and soft drinks are concerned, this is a praiseworthy proposal which taps a resource where it may justly be tapped. Tobacco and drinks will contribute almost \$1 billion in taxes. But more than \$400 million revenues are included in the list which cannot be qualified as

taxes on mass consumption at all. Taxes on telegraph, telephone, and lubricating oil, or on pipeline transportation, are business taxes, pure and simple. The doubling of the gasoline tax, we have reason to fear, will remain on paper. Certainly gasoline consumption for the duration of the war will be limited by more powerful factors than the purchasing power of the consumer. In other words, here too we stop at the first approach to our problem.

Yet Mr. Morgenthau maintains uncompromisingly his opposition against a general sales tax. His arguments are still the old tried ones—that a general sales tax falls on scarce and plentiful commodities alike, that it strikes at necessities and unnecessary alike. The Secretary would be at a loss to point out which commodities are still available in plenty. We know how unsuccessful the government has been in preventing a sharp price rise in the necessities, particularly food and clothing. Since August, 1939, the wholesale prices of foodstuffs have risen 30 to 180 per cent; of industrial raw materials—apart from some metals, where prices have rarely been fixed—51 to 232 per cent. In a period in which we experience such revolutionary price changes we are still squeamish about a general sales tax of 2 or 3 per cent, which, universally applied without exceptions, would easily yield \$2 to \$3 billion.

Ability to Pay

The Secretary insists that even now the guiding consideration for the tax policy must be ability to pay. To a press conference Mr. Morgenthau read the other day from a Treasury study which, he said, "indicated that a single person with an income of \$750 a year paid 17.3 per cent of his income in open and hidden Federal, State and local taxes of all kinds, and a married man with no dependents, earning \$1,500, paid 16.7 per cent. After seeing these figures I came to the conclusion that we would not be justified in lowering consumption or imposing a general sales tax."

The newspapers did not report more particulars about the Treasury study in which the Secretary referred. It is a safe bet that it was predicated on the widely quoted Monograph No. 2 of the TNEC "Who Pays Taxes?" This sensational document, which was published over a year ago, seems to be treated in Washington as a sort of Bible. I wish to hope much to the embarrassment of its able author.

Actually this TNEC monograph is one of the outstanding examples of how far even well trained economists can go astray, misled either by an emotional bias or by lack of practical experience or both. Apart from several other serious statistical mistakes the basic dis-

location of the results of this statistical study originates in two misqualifications. It first qualifies Social Security payments as taxes. There can be no serious dispute that they are actually forced savings, the accumulated benefits of which must in due time accrue to the payer. It would pierce the clouds if we, to the amusement of the public, would qualify J. P. Morgan's life insurance or accident insurance premiums as part of Mr. Morgan's tax bill.

The second, equally serious error of the monograph is the qualification of real estate taxes as being "paid" by the tenants. Any one who has the remotest idea of the realities of the American real estate situation ever since 1929 should know that real estate taxes—high or low, justified or not—are actually taxes on capital, whatever the original intention of the legislators may have been. If Mr. Morgenthau would instruct his office to use the figures of that monograph more critically, he would probably be surprised at the results.

But, paradoxical as it may sound, the argument is much less relevant than the public discussion seems to assume. Even if the tax load heaped on the masses were actually as heavy as spurious statistics seem to indicate, the logical conclusion would lead into the opposite direction of where it led the Secretary.

Burden on the Weak

It is the protection of just these poorest and weakest members of our society which we have in mind when we try to devise methods to combat the monster of inflation. It is these underprivileged who will carry the terrific burden of a fiscal policy which is guided by sentiment in default of hard realism.

We cannot and must not base our war tax policy on the ability to pay. What matters in war finance is to use the Keynesian term—the "propensity to consume"; and we know—in this respect some of the official statistics are reliable—that in America the propensity to consume is greatest just in those income groups which the recent Treasury proposals still want to exempt from additional taxes.

The great bulk of the savings, however, is accumulated by the income groups above \$3,000. (In Great Britain, incidentally, it is just the opposite.) If this tax bill goes through in anything like the present form, this propensity to consume not only will not be discouraged but will be enormously enhanced. It will be irresistibly propelled by at least \$18 billion out of the \$20 billion by which this year's payrolls will be larger than in 1939.

In a letter to THE NEW YORK TIMES, published on May 4, 1941, I called for "a premium on savings, a penalty on spending as the guiding principle of the

The New York Times.

American tax policy." This recent tax program sets the penalty on savings and the premium on spending. This becomes shockingly apparent in the second mainstay of the Treasury's program, the \$3 billion derived from corporation taxes. Here the ability to pay is beyond question, but by straining corporation taxes we shall not curtail consumption by one dollar.

These taxes cut entirely into the savings fund of the nation. By thus eating the reserves of American industry we may create ghastly consequences for the day when we shall have to face the post-war problems. By that time America will have a huge industry with vastly expanded capacity, and no working capital to run it. Is that what the Administration and Congress want?

Effect on Corporations

It is a transparent fallacy to believe that huge corporation taxes contribute anything to the fight against inflation. No industrial corporation today is capable of expanding for any but war purposes. If an executive would be realistic enough to think of other expansion, he would be faced with the insuperable hurdle of lack of needed materials and labor.

But if, as has often been pointed out, the profit motive in wartime may have no particular effect on the degree of expansion, it has a very definite effect on the efficiency of operation. The daily struggle to resist the continuous pressure of inflationist forces in every business is enervating enough, but if the government takes up to 95 per cent away in corporation and individual income taxes, only saints and heroes will stay in the gratuitous struggle against rising costs. Saints and heroes are not numerous enough to wage a victorious war on the battlefield and on the economic front.

To justify an ineffective tax policy by the fact that American soldiers and sailors are giving their lives is a misguided appeal to sentimentalism and wholly irrelevant to the real issue. It is apparently a late echo from the times when rich people could buy themselves free from military service.

To the blood sacrifice for our country the rich and the poor are called on an equal footing. Enemy bombs and bullets are socially indiscriminate, and the rich and the poor alike have only one mother to weep for them. It will be little comfort if our sentiments add to her worries the intolerable strain of a social revolution wanted by no one, but inevitable if we persevere on our path.

GREGORY STOLPER.

New York, March 14, 1942.

March 16, 1942.

Dear Mr. Robbins:

I am very much pleased with the extraordinary job you have done in distributing "The New Spirit" to motion picture theatres.

With limited time available to accomplish nation-wide distribution, your cooperation has contributed largely to the success of the project.

Please convey to your branch managers and other members of your organization my appreciation of their outstanding service.

Sincerely,

(Signed) E. Mergenthaler, J&J

Mr. Harman Robbins,
National Screen Service,
630 Ninth Avenue,
New York, New York.

GB:amc 3/16/42

H. H. R.
Copies to Thompson

March 16, 1942
9:53 a.m.

HMJr: Hello.

Operator: All right. Go ahead.

HMJr: Go ahead.

Dean
Acheson: Hello.

HMJr: Hello.

A: Good morning, Henry. This is Dean Acheson.

HMJr: Good morning.

A: How are you, sir?

HMJr: Fine.

A: I wanted to ask you in regard to your note about my memorandum on the Lend-Lease in reverse.

HMJr: Yes.

A: You said that you were going to call a meeting.....

HMJr: Yes.

A:shortly when you got through with your tax bill.

HMJr: Yeah.

A: Is that on your calendar?

HMJr: Well, we were talking about it this morning. Is there something you'd like us to take up now?

A: No, I just - I did not want to go ahead and see whether the general method was one that was acceptable to the British until I knew whether it was acceptable to you and the Army and Navy.

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- 2 -

HMJr: Yeah. Well, supposing we have a preliminary talk with you tomorrow morning or tomorrow afternoon. How would that be?

A: That would be fine.

HMJr: About three o'clock?

A: Three o'clock tomorrow.

HMJr: Yeah. We won't ask everybody - just you and anybody you want to bring with you.

A: All right.

HMJr: I mean, I won't ask any outsiders.

A: First rate. I shall be very glad to be there.

HMJr: I mean, if you want to bring anybody with you, okay; but I'm not going to ask War and Navy, until you and I have a talk.

A: All right. Do you want me to bring Gene Rostow from the Lease-Lend, or shall I come myself.

HMJr: Who? Bring who?

A: You remember that fellow from Lease-Lend, Gene Rostow?

HMJr: I don't know who he is. I think you'd better - just let's do it State and Treasury first.

A: All right, fine. I'll be there at three.

HMJr: Thank you.

A: Thank you, Henry.

March 16, 1942
10:46 a.m.

HMJr: Hello.

Operator: Aubrey Williams.

HMJr: Hello.

Aubrey
Williams: Good morning.

HMJr: How are you?

W: Well, pretty good. Say, I called you - a group of our people up in Michigan have gotten together about twenty-two hundred dollars up there toward a bomber.

HMJr: To do what?

W: Our people up in Michigan - our employees up there - have made their day's contribution of their wages toward a bomber.

HMJr: Yeah.

W: And I - they sent it down here and wanted to present it to you, but they've gone home now and they're going to be back on Wednesday.

HMJr: I see.

W: What would you think - just have them send it in, or what?

HMJr: Well, unfortunately, I won't be here, Aubrey; but if they would send it in to Dan Bell, I know he'd be delighted to receive it.

W: Uh huh.

HMJr: And I think it's fine.

W: Yeah.

HMJr: I'm very much pleased myself.

- 2 -

W: Now, one thing - the main thing I wanted to talk about was that we're coming up for a hearing next Monday or Tuesday.

HMJr: Yeah.

W: And the impression obtained up there on the Hill that you are among those that have been advocating that we be abolished.....

HMJr: Yeah.

W:and I have never felt that you really meant to give that impression.

HMJr: Well, what I said I said in writing. I don't know whether you have ever seen my statement. Have you ever seen my statement?

W: Only what I read in the papers.

HMJr: Well, let me send you around just what I did say about NYA. I mean - I think it was November fourteenth. Let me get the formal statement, and I'll get it around to you.

W: Well, I think they're laying great stress on that statement they say you made that they haven't gone far enough, and it's the clarification of that sort of thing.....

HMJr: What I said was that I thought that CCC and NYA and Education should be organized into one program to train our young people to do defense work. There should be one agency.

W: Uh huh.

HMJr: That's what I said, and I still think so.

W: Yeah. Well, of course, the opponents of us.....

HMJr: What?

W: I mean, the people like McKellar would say that's right and that should be the school.

HMJr: Yeah. And.....

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W: Of course, we think there should be.....

HMJr: I think that - you made something along that sort of thing yourself once.

W: Well, what I said was this, that they ought - that these agencies should be coordinated, that the line should be definitely established as to what each was supposed to do, and that NYA and CCC ought to be put together.

HMJr: Yeah. That's what I read.

W: But what I would like if I could get you to do is to recognize the valuable defense end of this thing we're doing. I've cut out everything else.

HMJr: Yeah.

W: And it would help me no end if I could have something from you before next Monday along that line.

HMJr: Well, I tell you what I'll do. I'll talk it over with some of the people here and see what we can do. I don't know.

W: Harry White has worked on this.

HMJr: What's that?

W: Harry White - you know, you had Harry on this.

HMJr: That's right.

W: And if it would be agreeable to you to let Harry work on it with me, I think I could get something put together that you would agree to.

HMJr: That's all right. I'll tell Harry of this conversation and ask him to look into it.

W: Yeah. Well, thanks.

HMJr: I'll do that right away.

W: Thank you so much.

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HMJr: Thank you.

W: Good-bye.

March 16, 1942
11:04 a.m.

HMJr: Harold.

Harold Graves: Yes, sir.

HMJr: Will you, yourself, and whoever else is necessary put your mind on today, this question which I was asked by Senator Brown, who's coming in to see me at ten o'clock tomorrow morning.

G: Yes.

HMJr: The overtime wages to be paid in a non-negotiable security.

G: Uh huh.

HMJr: Not a Defense Bond, but non-negotiable.

G: I wonder if he means non-redeemable, too.

HMJr: Non-redeemable.

G: You see, our Defense Bonds are non-negotiable, but they are redeemable.

HMJr: I mean non-redeemable.

G: Yes.

HMJr: The thing that I had in mind was that something along these lines - if we did it - that the thing would only be cashable after.....

G: After the war.

HMJr:after the war, and then in monthly payments.

G: Yes.

HMJr: So they won't all come due at one time.

G: I suppose his intention was that it would be interest-bearing.

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HMJr: No, I don't think so.

G: No interest.

HMJr: I don't think so.

G: Yes, sir.

HMJr: But he's coming in tomorrow - sometime after nine o'clock tomorrow morning - and I'd like you to talk with whoever's in the office; because he's very serious; and I understand - somebody said that Mrs. Roosevelt talked to somebody - oh, yeah, over at CIO, what's that secretary's name?

G: Carey.

HMJr: Yes, and that he was sort of favorable to the thing.

G: Yes.

HMJr: So give it enough time so that you can - it all gets down to how the labor would feel about it.

G: Yes, of course. I think I'll talk with Mr. Haas about that.

HMJr: Well, he's in here with me now; but anyway, I want some kind of an answer tomorrow morning, if you please.

G: Yes, sir.

HMJr: Thank you.

G: I'll have it.

March 16, 1942
11:25 am

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Lindow
Mr. Hadley
Mr. Buffington
Mr. Murphy

H.M.JR: I am reading Goldsmith's letter. You read it. I am not going to read it.

MR. HADLEY: Most of it is pretty general.

H.M.JR: Well, at least somebody - this is what I have been thinking about here amongst ourselves. Bell is on the Hill. God, I don't want the Fed to know anything about this thing. I am looking around the room. This is the Treasury crowd.

MR. LINDOW: We just ran into Mr. Bell, so he is back.

MR. MURPHY: That is what I was going to say.

H.M.JR: Now, as far as I am concerned--

(Mr. Bell entered the conference.)

H.M.JR: Hello, Dan. How did you make out?

MR. BELL O.K.

H.M.JR: What happened?

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MR. BELL: They adopted the amendment in the revised form we suggested. There were only about six or seven of them there. I told them that it wasn't something that we would recommend, and while we had no objection to it, we certainly didn't want to delay the bill, and finally they voted it in.

H.M.JR: Was George there?

MR. BELL: Yes, George was there, and the other part about combining the guaranteed and the gross public debt, I am asking them to eliminate that, because we didn't need legislation to do that, and we decided to do it. They said, "All right."

H.M.JR: Well, Dan, this is the way I feel this morning, and I want to tell you fellows. I am convinced, and I don't need any - I don't know what you call it anyway, expert advice on this - that I want more excess reserves in New York to do my financing and to give me a lower rate. Now, I don't care how we arrive at it, see, just as long as I get what I want, but I had this feeling - you know, I blew up here one day with Bob Rouse on the phone, and they had me here by the throat. The big difference is, I want a little competition. I want a big enough pool there so if some fellow doesn't want to come in, it doesn't hurt me, and of course, I would like to keep the interest rates down, and that is where - short rates, I am talking of - where Eccles and Burgess and that whole crowd would join up against me. Now, what I am thinking of doing, and I want you fellows to think about it, and you can shoot at me now, supposing we went ahead with a program that we were going to have two billion, six hundred million of bills, see, this week, with the understanding--

MR. BELL: Next week.

H.M.JR: Well, yes, but I mean announce it. With the understanding that we want the Fed to keep the rate at a quarter. Now, in going over this thing with George, he was in here alone, he tells me, one, if they do that,

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if I insist on that, that they will have to buy some and that will be from the reserves. Then, as program two, that we sell five hundred million dollars worth of certificates somewhere between six months and a year, depending on different things. Hadley now says six months would be at a half. Question one, again telling the Fed, if we had the bills and a half a billion - and before you came in, I cautioned the boys that this is a Treasury conference. I don't want - until you or I say so, I don't want anything to get out to the Fed, because just as soon as it is out to the Fed, we might just as well call the press in. This is Treasury business today. If I agree to two billion two hundred million of bills, and a half a billion as soon as we can do it of the certificates, would that take care of you?

MR. BELL: Well, I am just in the process of revising my figures. I think our balance will probably run pretty low at the end of April on that basis. Now, I have upped my Savings Bond figures a little. We will get probably five hundred fifty million this month, and I am going to put it down five hundred million a month from there on. I don't know whether we will meet it or not. If we don't, I will fall short. You see, what we had in April was a billion and a half dollars. Now, the eight hundred fifty million dollars in bills won't get in until you complete the cycle, which will be June. We have got time to think about it. I was thinking more in the neighborhood of a billion dollars for this short certificate, a six months and a nine months or a six months and a twelve months, two issues.

H.M.JR: Or I might make a deal with you. I am doing this thing so we can have a little - I have got to make progress, and I want you to know. Unless something happens, I am going to leave here on the twenty-first for a week in Arizona.

MR. BELL: And I take it you will be back by the sixth or seventh of April?

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H.M.JR: Oh, I will be back the thirtieth or thirty-first.

MR. BELL: That is when we ought to do any financing that we have got.

H.M.JR: I will be back the thirtieth or thirty-first.

MR. BELL: All you need to do now is make a decision on the bills. The other is tentative.

H.M.JR: Well, I would like to - Dan, you said a billion. I don't like a billion, but why couldn't you maybe do five hundred million, let's say, on the second of April, and then maybe another five hundred million around the twenty-third, do it in two bites.

MR. BELL: It is all right.

H.M.JR: The reason for that, if it is a half - he (Hadley) says today we can do a half. My feeling would be to do five hundred million for a half and feel our way, and then let's say we did that on the second, and then come along--

MR. BELL: You don't have to do it on the second. You could do it on Monday, the sixth or seventh, and then on the twenty-third or the twentieth or something like that.

H.M.JR: Then you could do it again. But having an agreement with the Fed that they will keep our rate at a quarter, and the other rate at a half - I mean, there is no use kidding them, saying that we want them to put some reserves in. Now, we watch the thing and see that - I am not prepared to do any more until I get more elbow room in New York, see.

MR. BELL: I think that will work out.

H.M.JR: I mean, I want more elbow room. Now, I don't know whether the General Motors and these other people will buy these certificates or not. Incidentally,

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the certificates are all going to fall due on the tax date.

MR. BELL: I wonder if they should. That is what we want to do, is roll them over through cash operations, and they might fall on a tax payment period, because you are taking a lot of cash out of the market.

H.M.JR: You mean you would rather stick to your tax certificate?

MR. BELL: Yes, I would rather stick to other maturities on the tax dates.

H.M.JR: Now mind you, I am not laying down any law. I am just saying how I feel and I am starting with two principles. I want more reserves, and I want to keep the short interest rates where they are. Now, the way that - to keep the interest rates as they are is to get the Fed to buy some, see. What? Now, I know that this wouldn't - the part that won't please Eccles or Burgess is the fact I want to keep the interest rates down.

MR. BELL: I am not sure that is right, but I don't think it makes much difference.

H.M.JR: But the thing that you can't convince me of is that you can have the short interest rates rise and keep the longer rates down.

MR. BELL: I think they can rise, but I don't know how far. I think they have risen. I wouldn't mind if they went in to the low thirties, but I think putting out this six months maturity with a half percent sort of puts a ceiling on your bills. They have got to be some place below that unless this goes to the discount. I think this is a good move, putting out this half percent security.

H.M.JR: Yes, I think it is a good move. I think it will put a ceiling on your bills.

MR. LINDOW: Well, if Fed bought it, it wouldn't go to discount.

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H.M.JR: I don't hear you.

MR. LINDOW: If there was any weakness in the certificate you could keep it from going to a discount.

MR. BELL: I think they would buy it. I am not so sure they are right. I think we ought to have - what we want really is a better distribution of reserves in New York, and I think maybe this shorter security will help us get that better distribution, because I think this is the type of security that people like, the Guaranty would want, but I don't think it makes really a lot of difference, Mr. Secretary, because I think they are going to put in a lot of reserves before this year is over. They have got to.

H.M.JR: Well, the way I feel, I would like to play this thing out with Reserve playing the game my way, and try it out.

MR. BELL: I think they will play it your way.

H.M.JR: And see what happens. And the other thing that I pointed out, nobody, for instance, has gone to General Motors or these big corporations, if they have surplus cash - I don't know - and have said that - "Well, gentlemen, what kind of securities do you want? Are you interested in a sixty, five years, or twenty years? What do you want?"

MR. BELL: There was some indication in a memorandum from the Federal Reserve of Philadelphia that they had talked to corporations in that district, and had got some indication that they would be interested. Is that right?

H.M.JR: Is that the only place they have talked?

MR. BELL: That is the only place that has written a memorandum. Williams did that.

H.M.JR: Well, it is very nice to sit back in your chair and have Burgess say "It is our responsibility, this

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money is with us, and we will tell the manufacturers what to do," but the Treasurer or the Comptroller of these big corporations, they will decide what they are going to do. They are not going to let the banks decide.

MR. BELL: Well, I wonder if before we issue this Mr. Buffington couldn't get busy writing up something, a description of this security, and maybe talking with a few large concerns, and then when we do put it out, we will see that they get the memorandum describing it.

MR. BUFFINGTON: Dan, what is wrong with my earlier suggestion, if you picked five corporations and just went to them and talked to them? It seems to me you might get it.

MR. BELL: Nothing at all. You might even get ten of the largest.

MR. BUFFINGTON: To talk with them and see what they want

H.M.JR: Well, I will come back to you in a minute. Hold your thought a minute. What do you think about what I have been saying for the last ten or fifteen minutes?

MR. BUFFINGTON: Sounds all right to me.

H.M.JR: Does that sound all right?

MR. BUFFINGTON: Yes.

H.M.JR: George, I know how you feel. Henry?

MR. MURPHY: I think it sounds fine.

MR. LINDOW: I am in full agreement.

MR. HADLEY: It sounds all right to me.

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H.M.JR: Well, then I will tell you what let's do. The thing is important. I want to let everybody think about it and come back here at three fifteen, see, because this is too important. This is terribly important. And then I think that if George could go to New York--

MR. BELL: And possibly Chicago.

H.M.JR: And possibly Chicago, and get in whoever the comptrollers are of these corporations. Take a concern, for instance, like Armour. I don't know which of these concerns are heavy, you see, with money, and which aren't. Now, Armour or Swift or Cudahy may be in to the banks. International House, somebody like that, "God, we are just sitting back here and just about ready to borrow. Who gave you this cock-and-bull story that we were interested in a twenty year bond?" they may say.

MR. BELL: Not a twenty year bond.

MR. BUFFINGTON: Five year.

H.M.JR: No, no, twenty. I thought you had a twenty year two and a half.

MR. BELL: Yes, but those are not the type of people that we want to invest in twenty year bonds.

H.M.JR: Oh, the five year?

MR. BELL: The five year or the certificate.

MR. HAAS: A sixty day one.

H.M.JR: Well, anyway, now if he was going to do that he ought to do that this week.

MR. BELL: Yes, I should think so.

H.M.JR: This week and let me know before I leave.

MR. BELL: You are leaving when?

H.M.JR: I hope to leave next Saturday afternoon.

MR. BELL: This coming Saturday?

H.M.JR: Yes, so I think what we will do is have another meeting this afternoon and try to get this straight-end out with the Fed tomorrow, see, and then George can spend Wednesday and Thursday - well, the rest of the week up until Friday night going to New York and Chicago. I don't think he will have to go beyond New York. I don't think he will have to go beyond New York because there are so many - I think what - I don't think you will have to go to Chicago, George, do you?

MR. BUFFINGTON: Well, I thought you would get two different points of view. Certainly the Chicago point of view is different than New York.

H.M.JR: Well, I would like you back here Saturday morning so we can settle this thing before I leave.

MR. BUFFINGTON: All right sir.

H.M.JR: Then would you want to do the bill thing until we heard about the certificates?

MR. BELL: Well, we don't have to do the bill thing, but Wednesday we are going to have some new money on bills.

H.M.JR: Can't you just do one?

MR. BELL: We can do the hundred and fifty roll over on Wednesday. Now, you do the first bill on April one if you would like to.

H.M.JR: I would like to have a statement prepared, you see, and I would like to - when you announce the thing, we will do the bills and certificates together if we are going to do them.

MR. BELL: Well, you would be announcing it on April 1, and you would have a certificate issued the following week.

H.M.JR: But if we are going to do the bills and certificates, I think we ought to have a statement explaining why and all that.

MR. BELL: All right, we can have that.

H.M.JR: And if George could be back here Friday morning rather than Saturday morning it wouldn't crowd us so terribly, you see.

MR. BUFFINGTON: I see. If you would rather I would go to New York and then come back here--

H.M.JR: Well, think about it. But the thing is, I don't want to rush you people. You can come back here this afternoon and then if you gentlemen agree with me then we will have another meeting with Mr. Eccles. What?

MR. BELL: That is all right.

H.M.JR: And I don't want George to start out until he sees Eccles. Well, let's see, that is Tuesday. One day in New York, and one day in Chicago, will that be enough?

MR. BUFFINGTON: I think that is sufficient. It will give you a short day in Chicago because the train leaves at 3:20.

H.M.JR: Yes, that is impossible. You can be back Saturday. You can phone in and simply say this looks all right and I think somebody ought to be working on the statement. This isn't the kind of statement we will need.

MR. BELL: Oh, no.

H.M.JR: I think if you get back by Saturday then we can clear this thing. It will give you one day in New York and two days out in Chicago. But you see the banks think that - I think I am right, that the banks like to kid themselves with the thing, but the comptroller of the company, treasurer of the company, he is going to decide what he is going to do, and his board of directors, aren't they?

MR. BUFFINGTON: I would think so.

H.M.JR: And I think that--

MR. BELL: They can tell you whether or not they are interested in short securities and the rate up to a half.

They can tell you that. And then there is some indication that after the Treasury bill rates go to a quarter the corporations are coming back into the market.

H.M.JR: I think the easiest way to do it would be to ask Governor Young of Chicago to arrange for you to see these people. He could do it in advance and have the people ready and they could do the same thing in New York. You wouldn't be around ringing door bells then. You can see them at the Fed, and I think you could let the Governors sit in with you, see. What?

MR. BELL: Sure.

H.M.JR: I mean, you take Governor Young out in Chicago, you can say, "Look, I am coming out here and I want to see the comptrollers of half a dozen corporations who will decide how their money is to be invested. We have got a suggestion we would like to talk to them about. Would you arrange so I can see three in the morning and three in the afternoon?"

MR. BELL: Do you want Bob Rouse with him in New York?

H.M.JR: Somebody.

MR. BELL: Maybe they can get them to come to the bank in which case it would save a lot of time running around.

H.M.JR: Oh, I would invite them to the bank. It is the kind of thing I used to do when I was young. I remember I stopped once in Chicago and they brought in a lot of people all day long and I learned a lot. What do you think?

MR. BELL: Fine.

H.M.JR: You had an easy week last week, and this week you work.

MR. BUFFINGTON: Very easy. That is fine. I was complaining about it.

MR. BELL: Don't ever complain. It always corrects itself.

H.M.JR: It was easy as far as I was concerned. Well, what do you think, Dan? I think we have made a little progress don't you?

MR. BELL: It is O.K. May I mention one thing? We had about a twenty million dollar balance Saturday night in the Federal Reserve bank and we might have an overdraft tonight, over and above what I have used.

H.M.JR: What is your working balance?

MR. BELL: Two billion five, four or five.

H.M.JR: But you are just short at the Fed?

MR. BELL: We are short at the Fed, yes. we let that run down. Now tonight we may have an overdraft, in which case I will sell one day certificates to the street. Is a quarter of one percent all right?

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

MR. BELL: It will cost us about six dollars eighty cents a million. Well, it is about as low as we thought we ought to go and George said he thought it was--

H.M.JR: You can clear it with George's crowd. If you and George and Hadley and Buffington - here, take this group. Let them settle it.

MR. BELL: All right. I think we are all right. I hate to go down--

H.M.JR: You have got them fixed, have you?

MR. BELL: No, I just talked to George and Murphy.

H.M.JR: They can go into your room right now and settle it.

MR. BELL: We thought about going down to an eighth and then taking thirty-one percent of it in taxes would be pretty bad.

H.M.JR: Why not let them go into your room right now?

March 16, 1942
2:14 p.m.

HMJr: Hello.

Clifton
Mack: Yes, sir.

HMJr: Clif.

M: Yes.

HMJr: On this business of spending four and a quarter million dollars up in Elmira, it sounds like a lot of money to me.

M: Indeed it does. They got those figures from the War Department. I talked with Reynolds Saturday noontime, and he told me that - I said, "That seems to me like a lot of money," and I thought sure that you would feel like that about it, too; and he said that he felt that he could do a lot better job than that - than the Army is doing. He feels they're building - putting too much expense into their warehouses.

HMJr: Well, let me just interrupt you a minute.

M: Yes.

HMJr: Because you sent it over - four and a quarter - for me to okay. Now, this is a suggestion. Inasmuch as they've evidently appointed this General Somervell, has he approved this plan?

M: We're having a meeting with Defense Transportation and Somervell - I mean representatives of Somervell's office - as soon as we have approval to go ahead.

HMJr: Well, why shouldn't he provide us the space. Where'd you get the four and a quarter million from?

M: That's from the War Department. That's from the War Department.

HMJr: Well, why do I have to approve it?

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M: Well, this is the story. The Lend-Lease organization had an appropriation of about a hundred millions of dollars for building stores and warehouses and assembly plants for Lend-Lease, and they estimated that about forty millions of that - I think it was forty millions, in that neighborhood - would be required for storing supplies purchased by Treasury Procurement, so that we went to them awhile ago and told them that we needed a place to store materials and they said, "Well, we've got the money for you and we've earmarked this for Treasury Procurement; and, as a matter of fact, they made an allotment of twenty millions of dollars to Treasury Procurement for building warehouses.

HMJr: Well, I still say, and before I want to okay it.....

M: Yes.

HMJr: In the first place, I don't see why I have to okay it; but if I do, I'd want General Somervell.....

M: Yes.

HMJr:I'd want something in writing from him that this is what he wants.

M: Well, very good.

HMJr: I don't like to hold you up, but he's just been appointed to this, and I think we ought to give him a chance.

M: Yes. Well, all right, we'll do that.

HMJr: I think he ought - now, would you want me to send this back to you?

M: If you will, and we'll take it up with him and then get you the story after we talk with him.

HMJr: Yeah. I think he ought to write us something and say that this is what he wants. Now, he

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might - you know, he hasn't had a chance to get going. He may approve this; on the other hand, he may say, "No, I want to do it some other way."

- M: Well, very good. Very good, that's so. And by all means - the purpose of the meeting that we were lining up was to make sure that we weren't conflicting with anything that they were doing.
- HMJr: Well, then, before I sign I want General Somervell to sign first.
- M: Yes, all right. Now, on the Russian program, Loeb and the Russian representative and the War Production Board people are having a meeting right now over at War Production Board on each of those items that are tight.....
- HMJr: Good.
- M:to find out one, whether or not there are any of those particular items anywhere in the country that could be applied to those orders.
- HMJr: Yeah.
- M: I told them that's what you wanted, and then this question of precedence can be easily settled if we know.....
- HMJr: Well, that's the result of my calling you Friday night.
- M: Yes.
- HMJr: Calling you Friday night.
- M: Yes, that's it.
- HMJr: Good. Well, now, fine; and let me know, and I'll send this back to you right away.
- M: Very good. Thank you, sir.
- HMJr: Thank you.

March 16, 1942
3:25 p.m.

FINANCING

Present: Mr. Haas
Mr. Murphy
Mr. Lindow
Mr. Hadley
Mr. Buffington
Mr. Viner
Mr. Bell

H.M.JR: Sorry to keep you all waiting, but that was Ambassador Admiral Standley on his way to Russia. He is quite an old boy.

MR. BELL: It was a lucky break.

H.M.JR: Yes. He has got a lot of the old salt.

MR. BELL: He has been working almost continuously since he retired, just doing things like this.

H.M.JR: He said everybody should make an all out effort.

MR. BELL: The Treasury had him on something ever since he was there.

H.M.JR: Well, gentlemen, I take it - should I read this now?

MR. BELL: It isn't very long. It is just what he suggested the other day.

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H.M.JR: All right. Well, Jake, I didn't see you this morning. Have the boys told you what we were talking about this morning?

MR. BELL: No, I haven't.

H.M.JR: Well, what did you do while you were waiting for me, tell stories? (Facetiously) He doesn't know?

MR. BELL: Not unless somebody told him. I just thought just before lunch if you wanted Jake in and I asked Fitzgerald to check on that, and I never thought of it until one o'clock. I could have told him since, but I didn't.

MR. VINER: You mean about this?

H.M.JR: No. It is too bad to take up Jake's time and mine, but I am going to do it because it is worth doing. I was feeling around this morning, and the way I feel - and I asked everybody to think it over and come back - is that the thing that I am interested in, and I said that this that I was saying today was to stay within the Treasury, I told the other people. As soon as we tell the Fed it gets right out on the street. I am interested in increasing the reserves in New York. I am interested in keeping short interest rates down. I may be wrong, but I would like to try it. With that in mind to feel my way, I asked them this morning to think about - I thought they would tell it to you - around the first of April starting to sell two hundred million dollars worth of bills a week and then selling five hundred million dollars' worth of certificates, most likely six months at a half a percent, and then to wait and see what happened. But tomorrow we will send Buffington out to New York and Chicago and talk at the Federal Reserve banks to a number of leading business men, or rather their comptrollers, and ask them what they would be interested in, and are they interested in, and have they any surpluses. Nobody has done that with the exception of sort of hit or miss in Philadelphia. So we sit around here and say this is designed for what businesses want, but no one has talked

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to businesses to see have they idle funds and if they have them, do they want to invest them in the United States Government, so that we don't sit here and day-dream and draw pictures like Walt Disney.

Buffington is going to go out and see the people. And then I asked the people to come back and think about it and if they thought all right, take it up with the Fed and see if we could get them to agree, the idea being that if we said for bills to hold them at a quarter of one percent and the certificates at a half of one percent, that the Fed would have to hold them at that rate and in doing that they most likely would have to pump some new money into New York. Isn't that about what I said this morning?

MR. BELL: Yes.

H.M.JR: And that is what we are talking about, and everybody seemed to think it was all right as a step.

Now, I don't expect you to answer that now, having heard about it for the first time.

MR. VINER: I would like to see--

H.M.JR: What?

MR. VINER: I would like to see those two steps taken, but I am not enthusiastic about the quarter-of-a-percent thing. I would have to think about it more.

H.M.JR: Well, it is not my fault that you weren't informed.

MR. VINER: No, that is all right.

H.M.JR: I do the best I can.

Well, where are you, Dan? Let's go around the room.

MR. BELL: I am a little worried about the quarter.

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I think if you would say hold it to a quarter and you don't get any of these business funds, the Federal is going to say to you, "Well, it is your fault because you held it at a quarter." I would rather see a range down there, even if you want to put it below a quarter, between one-fifth and three tenths or thirty-five hundredths, something like that, say between that range that the bill rate shall remain and they shall support it, and the nearer it gets to the thirty-five, the more vigorously they will support it. One of the purposes of this is to get in the business funds, and I don't believe they will come in at less than a quarter. They might come in at a quarter, between a quarter and three tenths.

MR. HAAS: Of course you have got the half.

H.M.JR: Excuse me, you can find that out, George (Buffington), and also don't forget to try them out on that five-year thing.

MR. BUFFINGTON: I raised that question. There seemed to be some difference of opinion as to whether we should go that far with them at this time.

H.M.JR: Oh, yes. There is no use going out and just taking it - I am not going to send you out unless you show them the five-year and talk to them about the bills and the certificates. After all, all you have got to do is read Goldsmith's letter and you have the plan anyway. It is no secret. I sent for the letter this morning. There is no secret about it. He was very careful to say the Treasury hadn't agreed to it, but then he goes ahead in the greatest detail telling what the Open Market Committee's plan is so if anybody isn't posted on what the Open Market Committee wants, just tell them to subscribe to Ted Goldsmith's letter.

MR. BELL: He came in and told me about it. I told him we had no comment whatever, one way or the other. We didn't deny or confirm.

H.M.JR: You are getting cagey, are you?

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MR. BELL: Yes.

MR. HADLEY: I am a little bit leery about trying to support the bills at any given rate on the first attempt at a certificate. I think the support should be placed, if you are getting down to that detail, on the certificate and let the bills fall where they will. I think it is mechanically hard to support an issue that you bid for.

H.M.JR: Anything else?

MR. HADLEY: That is all.

MR. LINDOW: I am in favor of the program as you outlined it. I think if we set a range for the bills, the tendency for the Fed would be to support just at the top and all you have done is changed the twenty-five to thirty or thirty-five. If I thought the range would be flexibly followed, I think it would have merit, but I am very doubtful that it would be.

H.M.JR: Henry?

MR. MURPHY: I am for the program as you outlined it. I don't see any difficulty at all in the mechanical aspect of supporting the bills. All the Federal has to do is to put in a bid at twenty-five or twenty-six and buy them with a smile.

H.M.JR: But it with a what?

MR. MURPHY: Buy it with a smile.

MR. VINER: You have the authority now.

MR. MURPHY: They won't take them all. I would say for every hundred million we increased the bills if they had a billion at twenty-five or twenty-six, they won't take more than half of them at the most; and I would be very much surprised if they took that much. Of course not from us, from the market, but all they have to do is put their bid in the open market.

H.M.JR: Buffington?

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MR. BUFFINGTON: I can't believe that these corporations are going to be particularly interested in bills unless you get them up somewhat above a quarter. I wouldn't think that would be enough of a return to attract them, although I think they would be interested in the certificates.

H.M.JR: Well, you will know more after you talk to them.

MR. BUFFINGTON: Yes, sir.

H.M.JR: George?

MR. HAAS: I like the program as you outlined it. I think you have to keep in mind that you are not making a public announcement on any rate. It is just between yourself and the Federal Reserve, so that it - I don't see any danger in that at all.

H.M.JR: Well, Dan, this is what I - have you got a little time now?

MR. BELL: Yes.

H.M.JR: Could the boys go into your room?

MR. BELL: Yes, sir.

H.M.JR: This is what I would like. Just keep this in mind. I want to get more excess reserves into New York, see. I would like to keep short money rates within the approximate range that they are now.

MR. BELL: That is all right.

H.M.JR: Now, with those two objectives in mind, work the thing out the best you can and arrange to see the Fed tomorrow morning, will you?

MR. BELL: Do you want us to see the Fed? You don't want to see them?

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H.M.JR: I don't want to see them.

MR. BELL: O.K.

H.M.JR: Keeping those two objectives. That is fair isn't it, Jack, as long as I feel that way? That doesn't tie their hands too much.

MR. VINER: They won't agree.

H.M.JR: Well, I don't care.

MR. VINER: Because they will say that the chief merit in adding to the bills will be to draw funds into New York from country banks and businessmen, and that that they won't buy it at a quarter. They might buy it at point three, and I would like to know what is the rate at which there is a big pile of funds. There is some rate and it is not very high at which these country funds would start piling in to New York, and what I would like to do is to experiment until you have found that rate at which they will carry a big load, which will do the two things you want. It will add to the New York reserves and it will increase the amount of bills out in the country.

Now, it may be that point twenty-five will do it. I think point thirty-five would do it. I feel pretty confident of that.

H.M.JR: Well, with the instructions I am giving you, I am not giving you a rate.

MR. BELL: He said approximately.

MR. VINER: Is point thirty-five approximate? You might have to go that high.

MR. BELL: Well, I don't know that that much of a range, but the Secretary said approximately the present rates which is twenty-two for the present bills up to whatever you say is an approximate range of that.

MR. VINER: I wouldn't go above point thirty-five now.

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H.M.JR: Well, I am saying approximate. I am not going to write the ticket. If it would carry out my philosophy, it would be all right; and as to the details and whether it is point three or - I mean, argue it out. These fellows may be able to convince you on point three or - I don't know.

MR. VINER: I don't pretend to know, but I feel confident it is somewhere higher than point twenty-five.

H.M.JR: You may be right.

MR. VINER: I feel, however, there is a big bunch of money that would buy bills.

H.M.JR: I think after Buffington has seen a half dozen corporations in New York and Chicago, we will know better.

MR. VINER: Particularly if you try to sell the bills, if you don't merely stand there ready to accept them, but if you tell them you would like them to buy.

H.M.JR: Well, Dan, do you want any more in the way of--

MR. BELL: No, that is enough. I think we can work out something.

H.M.JR: You can do it right now? Can you take this gang into your room?

MR. BELL: Yes, sir. And tomorrow we will arrange the meeting with Eccles.

H.M.JR: All right.

The National City Bank
of New York
ESTABLISHED 1812

New York March 14, 1942.

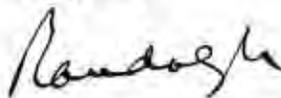
OFFICE OF
THE VICE CHAIRMAN
OF THE BOARD

Dear Dan:

In accordance with the Secretary's suggestion I am enclosing some ideas for the next step in Treasury financing. These are of necessity personal, though I think they are on lines which would meet the approval of my associates. If I have some more ideas I will send them along.

Please thank the secretary for taking his time on a busy morning to talk with us. We are on call at any time.

Sincerely yours,



Honorable Daniel W. Bell,
Undersecretary of the Treasury,
Washington, D. C.

WRB.H

TENTATIVE SUGGESTIONS FOR TREASURY FINANCINGWith respect to the short market:

- (1) Increase the bill issues immediately to \$200,000,000 a week.
- (2) In April sell \$750,000,000 to \$1,000,000,000 of one year certificates of indebtedness without rights.

These two steps will help distribute excess reserves more evenly among banks as they will provide a means of employing large excesses in some banks. They will also provide a security suitable for corporations, and in making the offering a definite sales effort should be undertaken to reach these buyers, by sending them subscription blanks, working through the banks, leaving books open two or three days, etc.

With respect to the long markets

(1) The next step is to start the Federal Reserve System and the banks in a more active campaign for the sale of F. and G. bonds. Up to this time the emphasis has properly been on the sale of E bonds through the payroll deduction plan; that has been more important because it draws funds from current income. That campaign is now sufficiently under way so that a second campaign through the banks to put idle funds into F. and G. bonds can now be started without interfering with or confusing the first campaign. While substantial sales of these bonds have been made they have been largely to trust accounts and investors ready to take the initiative. Additional amounts can be sold through a more aggressive campaign. The Federal reserve and banks can do this more effectively than any other agency.

- (2) In addition there should be a regular market issue of from

- 2 -

15 to 18 years, 2 1/2 per cent, to keep that market supplied with the bonds of this sort wanted by institutions. In selling this issue there might be a further extension of the plan of full allotment to those who will take delivery of registered bonds 90 days after date of sale. These might be allotted 100 per cent up to \$25,000, and for these buyers the issue might well be held open for three days or a week.

These proposals are a move in the direction of the objectives suggested by the Federal reserve but without committing the Treasury to launching on a large scale a series of innovations concerning which the banks and market have a good deal of question. These moves should, however, accumulate experience which will be useful in deciding the next step, and they will further the sales campaign in which the Treasury, the Federal reserve, and the banks work together.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 16, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Proposed Agreement with the Federal Reserve System

At the meeting in your office with the Federal Reserve people on Thursday afternoon, it was suggested, as an immediate program, that:

- (1) The outstanding amount of Treasury bills should be increased to \$2.6 billions, or more;
- (2) A substantial amount of coupon certificates of indebtedness of 6 months' or one year's maturity (without "rights" values) should be issued in the near future; and
- (3) The Federal Reserve System should agree to hold the prices and yields of long-term Treasury bonds within some (as yet unspecified) limits.

Mr. Sproul said in the subsequent discussion that, if the program were adopted, he believed that the Federal Open Market Committee would commence to accumulate a portfolio of Treasury bills at about 0.30 percent and would press its purchases more vigorously thereafter as the rate advanced. No formal commitment in this connection was proposed, however. No action was contemplated in the immediate program just outlined in connection with the proposed new non-market securities, it being suggested that this matter be postponed for more mature consideration.

I. Short-term Securities and Excess Reserves

The courses of action outlined in the above proposal, if taken alone, would be very bearish in their effect on the market. The increase in bills and in certificates would tend to increase the short-term rate of interest fairly promptly;

Secretary Morgenthau - 2

while the suggested agreement with respect to holding the long-term issues within a given range would not result in any support for the long-term rate, either directly or through the creation of new excess reserves, until the rate had risen considerably above its present level -- that is, until prices had fallen considerably. (The support levels suggested for the long-term issues are considerably below present market prices.)

The Treasury and the Federal Reserve System, if they should embark upon a program such as that suggested, would be trying a bold experiment -- that of raising short-term rates without affecting long-term rates. Such an experiment might be successful, or it might fail. In 1937, it failed. If it failed this time, it might be possible to reverse it successfully, or it might not be. None of these things can be known without trying the experiment. Under these circumstances -- with so little to gain and so much to lose -- it is submitted that the experiment is not worth trying.

With this in view, it is suggested that the program be amended by providing that the outstanding volume of excess reserves should be increased so as to stabilize the bill rate at around 1/4 percent. The necessary increase in excess reserves could be furnished by open-market operations conducted through the medium of the increased supply of certificates and bills which would be provided by the program itself, which supply should be made adequate for the operations. (It is suggested, however, that the initial issue of certificates be confined to \$500 millions of nine-months or one-year 1/2's. Such an initial issue could be followed by an increase in the outstanding amount of bills and, perhaps, thereafter by further issues of certificates in such a manner as to stabilize the 90-day rate at about 1/4 percent and the one-year rate at about 1/2 percent.)

The program, as so amended, would differ from that previously described only in that it would not provide for substantial increases in short rates -- a step which we do not believe can be undertaken without endangering the position of long rates also.

Secretary Morgenthau - 3

II. Proposed Range of Support for Long-term Issues

No definite conclusion was reached at the Thursday meeting with respect to the exact range of support to be agreed upon for the long-term issues. There are two schools of thought on this matter, divided primarily by the question of whether it would be advisable to allow the securities to fall below par.

The range of support most commonly advocated by those who would not mind seeing the securities fall below par is 2.44-2.54 percent (99-5/32 to 101-4/32) for the 2-1/2's of 1967-72.* We disagree with this point of view and believe that if any long securities should be allowed to go below par it might unsettle the whole market. The question of "pegging" is really not involved, as a peg is just as much of a peg at 99-5/32 as at 100 -- and may be harder to hold. In order to avoid the appearance of pegging, however -- which is probably greater at par than at any other price -- we should prefer that the bottom side of the peg be a little above par. We suggest, therefore, a range of 2.40-2.48 percent (100-12/32 to 101-29/32) for the 2-1/2's of 1967-72.

It was generally agreed at the meeting on Thursday with the Federal Reserve representatives that the 2-1/2's of 1956-58 should also be included in the agreement, in order to provide a broader base. We should suggest in the case of this issue a range of from 2.20-2.30 percent (102-12/32 to 103-19/32).**

III. Role of Excess Reserves in the Present Situation

From a broad point of view, the problem of excess reserves boils down to the question of whether the Treasury or the banking system shall govern the terms on which war

* The 2-1/2's of 1967-72 are now quoted at 100-17/32 to yield 2.47 percent.

** The 2-1/2's of 1956-58 are now quoted at 102-27/32 to yield 2.26 percent.

Secretary Morgenthau - 4

financing will be conducted. This is more than a mere matter of rates. If excess reserves are abundant, the tone of the market will be good and the banking system will willingly fall in line with Treasury policy. If excess reserves are scarce, the tone of the market will be poor, the success or failure of new issues will always be a matter of doubt, and the Treasury will be constantly subject to the censorship of the banking system -- on matters of general policy as well as of rates. The question may broadly be compared with that of whether the price and priorities of, say, copper should be determined by the Government or by a trade association. The matter of inflation is not involved. The degree of inflation will be determined entirely upon other grounds.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 16, 1942

TO Secretary Morgenthau
FROM Mr. Hagg *HA*
Subject: Notes on Meeting with Mr. Burgess and Mr. Stonier

Mr. Burgess began his discussion by saying that Chairman Eccles had discussed Treasury financing proposals with the American Bankers Association people in New York a few days ago and the present visit to the Treasury was occasioned by the desire to explain the banking reactions to some of Chairman Eccles' ideas. A summary of the points made by Mr. Burgess and Mr. Stonier follows:

1. The two new tap securities are undesirable at this time, for the following reasons:
 - a. The announcement of their issuance might have had effects. Banks are incurring heavy expenses in handling the savings bond program and they are willing and happy to be making this contribution, but it would look like discrimination if banks were asked to sell attractive nonmarketable securities which they themselves could not buy. Why should all investors other than banks be provided with non-risk obligations while banks are invited to participate only in those securities involving market risks? Worse than that, the natural psychology of a banker is to want his deposits to increase; and it would be fighting this psychology to ask banks to persuade their customers to withdraw deposits in order to purchase the new tap securities.
 - b. It is unnecessary to offer demand obligations in order to tap the particular funds involved. This is true of both short-term funds and long-term funds. An increase in the supply of short-term securities, accompanied by some increase in rate, would make short-term marketable securities attractive again to corporations, more than half of which would

Secretary Morgenthau - 2

definitely prefer negotiable securities anyway. This preference would be based on the instant liquidity provided by marketable securities and on a feeling that Treasury pressure might prevent the cashing in of demand nonmarketable obligations.

For long-term funds most investors do not worry about market fluctuations. Insurance companies and endowments generally buy long-term securities for permanent holdings and for income and are not concerned with fluctuations in the value of principal. In short, marketable securities are attractive enough to tap these long-term funds. Moreover, there will be no serious banking problems raised by bank subscriptions to long-term issues, inasmuch as bank willingness to accept such issues has declined strongly in recent weeks.

4. No harm will have been done if it should turn out later that marketable securities have not fully succeeded in attracting the funds for which the new nonmarketable securities were proposed; and such issues may then be offered with the conviction that they are necessary in spite of certain arguments against them.
5. It is desirable to increase the supply of bills and to offer a coupon certificate of indebtedness without "rights" value. An increase in the supply of short-term issues, which would probably be accompanied by an increase in the short-term rate, would not only serve to attract the funds of corporations, as suggested above, but would be helpful in providing greater fluidity in the banking system. It would probably not hurt the long-term rate if the bill rate rose to as high as $1/2$ of 1 percent.
6. There would probably be no serious market repercussions if the $2-1/2$'s of 1967-72 were to drop to 98 or 99. The basic rate of $2-1/2$ percent for long-term money can probably be held for a long time. Bankers generally are not looking for higher rates on long-term money.

Secretary Morgenthau - 3

Comments

The general outline of the program suggested by Mr. Burgess and Mr. Stonier is not inconsistent with the immediate program described in the memorandum we prepared for you in accordance with your request at the time of the meeting with the Federal Reserve people in your office last Thursday afternoon. There is agreement on the desirability of providing an increase in the supply of short-term securities, although there is a serious question raised about whether short-term rates should be increased, and certainly as to whether the bill rate should rise to as much as 1/2 of 1 percent. The suggestion to postpone the issuance of the proposed new nonmarketable securities appears to have some merit especially since it would certainly be to the Treasury's advantage if marketable securities could be used to tap the funds involved rather than increase the amount of demand obligations outstanding. The question of whether the 2-1/2's of 1967-72 should be permitted to drop below par is one on which there is considerable disagreement, and we should prefer that the long-run problem of excess reserves be handled in such manner that this issue does not go below par.

TREASURY DEPARTMENT

81

INTER OFFICE COMMUNICATION

DATE March 16, 1942

TO Secretary Morgenthau

FROM H. D. White

HDW

one of the members of

The question was asked of you by the Ways and Means Committee as to whether the increased supply of demand obligations by the Government might not some day prove embarrassing to you because of the possibility that a large portion of them might be suddenly presented for redemption.

Any such concerted demand for repayment would be the result of an emergency situation -- such as possibly an unforeseen series of serious military reverses, or an attempt on the part of banking and other conservative interests to discredit the Administration, despite the immediate effects on their portfolios, or frighten away contemplated legislation, or discourage continuation of war effort. Such developments are special emergencies and protective or correction measures are to be regarded as special emergency measures.

You will remember that you and the President have emergency powers. If no change in our monetary legislation is made with reference to the matters below, you could, with the approval of the President, muster at very short notice nearly \$7 billion of cash in addition to the working balance in the General Fund with which to meet any such demand. This could be done as follows:

1. Issue \$1.8 billion of silver certificates on the basis of the silver bullion in the General Fund.
2. Issue \$3 billion of United States notes -- so-called Thomas Amendment currency.
3. Use the more than \$1.8 billion of unallocated funds in the Stabilization Fund.

This total of nearly \$7 billion does not exhaust the possibilities. Again bearing in mind that if very large sums are needed the situation would be an emergency and would justify the use of every resource of the Treasury, there would still be open to you the following additional possibilities:

1. A reduction in the gold content of the dollar by direction of the President which would add more than \$4.1 billion to the General Fund.

- 2 -

2. A reduction in the silver content of the silver dollar in proportion to the revaluation of the gold dollar which would permit the issue of an additional \$3.7 billion in silver certificates.

It is in the light of such an emergency necessitating the use of very large sums in cash by the Treasury that the above monetary powers must be evaluated, and it is precisely because of their usefulness in an emergency that I strongly urge that no attempt be made to modify or repeal the legislation granting these powers to you and to the President.

In addition to this total of nearly \$15 billion that could be secured by the Treasury under the monetary powers of the Act of May 12, 1933 and the Act of January 31, 1934, the Second War Powers Bill would permit the direct purchase of Government obligations by the Federal Reserve Banks. As amended by the House, the aggregate amount of such securities the Federal Reserve Banks could hold is limited to \$5 billion. This would still enable the Treasury to sell \$2.5 billion of securities directly to the Federal Reserve Banks (provided they agreed to buy them.)

Without the House limitation, the Federal Reserve Banks now have sufficient reserve to acquire a minimum of \$33 billion more in Government obligations. However, the purchase of Government obligations by the Federal Reserve Banks can take place only through the Open Market Committee.

(Another source of funds that it might be possible to tap without legislation in an emergency are the deposits and earmarked gold of the governments and central banks of blocked countries -- about \$2.6 billion. Our Legal Division believes that under the First War Powers Act it could probably be argued that there is legal basis for compelling the investment of such funds in government securities. This is not their definitive decision.)

Daily changes in the stock of Series E savings bonds on hand ^{1/}
(In thousands of pieces)

	: Number of : pieces sold : this day	: Number of pieces : manufactured : this day	: Stock on hand : at close of : day	: IBH : deliveries : this day
Mar. 1	none-closed	none-closed	24,386	-
2	304	500	24,582	-
3	160	500	24,922	525
4	171	500	25,251	-
5	200	500	25,551	625
6	210	500	25,841	-
7	211	none-closed	25,630	625
8	none-closed	none-closed	25,630	-
9	344	500	25,786	-
10	123	500	26,163	-
11	192	300	26,271	-
12	157	300	26,414	800
13	193	300	26,521	-
14	137	none-closed	26,384	-

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

March 16, 1942

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

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Twelve Business Days of March, February and January 1942
 (March 1-14, February 1-14, January 1-14)
 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	\$ 42,500	\$ 48,872	\$ 76,833	-\$ 6,072	-\$ 27,961	- 12.4%	- 36.4%
Series E - Banks	<u>125,572</u>	<u>184,639</u>	<u>208,339</u>	- <u>59,067</u>	- <u>23,700</u>	- <u>32.0</u>	- <u>11.4</u>
Series E - Total	168,372	233,511	285,171	- 65,139	- 51,660	- 27.9	- 18.1
Series F - Banks	21,496	29,546	31,088	- 8,050	- 1,542	- 27.2	- 5.0
Series G - Banks	<u>94,277</u>	<u>147,160</u>	<u>124,732</u>	- <u>52,883</u>	- <u>22,428</u>	- <u>35.9</u>	<u>18.0</u>
Total	<u>\$284,144</u>	<u>\$410,218</u>	<u>\$440,991</u>	- <u>\$126,074</u>	- <u>\$ 30,773</u>	- <u>30.7%</u>	- <u> 7.0%</u>

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

March 16, 1942.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - March, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
March 1942									
2	\$ 5,811	\$ 15,868	\$ 2,043	\$ 8,726	\$ 26,636	\$ 21,678	\$ 2,043	\$ 8,726	\$ 32,447
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
9	4,967	18,636	3,944	8,488	31,068	23,604	3,944	8,488	36,035
10	2,804	5,719	1,365	4,162	11,246	8,523	1,365	4,162	14,050
11	3,156	10,002	1,533	7,287	18,823	13,158	1,533	7,287	21,979
12	2,686	8,114	1,133	5,504	14,750	10,800	1,133	5,504	17,436
13	2,682	10,594	1,065	5,007	16,666	13,276	1,065	5,007	19,348
14	2,797	6,616	1,102	4,745	12,463	9,413	1,102	4,745	15,260
Total	\$ 42,800	\$125,572	\$ 21,496	\$ 94,277	\$241,344	\$168,372	\$ 21,496	\$ 94,277	\$284,144

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

March 16, 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.

Forwarded
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March 16, 1942

FOLLOW-UP FOR THE SECRETARY:

You have asked that Mr. Paul speak to you about the President's suggestion that the proposed tax on gasoline be increased still higher.

March 7, 1942

Randolph Paul
Secretary Morgenthau

The President raised the question at Cabinet as to whether we could increase the proposed tax on gasoline still higher. Please speak to me.

Follow up 3/10 Mr Paul said he
on 3/10 spoke to The Secy

3/13 - Paul's office phoned to
say that he had not
spoken to Hump -

Follow up next 9:30.

March 16, 1942
3:45 p.m.

TAXES

Present: Mr. Paul
Mr. Blough
Mr. Tarleau

H.M.JR: I hear it only took four people to do this little inquiry of mine.

MR. BLOUGH: You won't think the results are comparable to the labor expended.

MR. PAUL: Were you intending to discuss this with the press this afternoon?

H.M.JR: Well, I felt confident they would ask me.

MR. PAUL: Well, I think you shouldn't dignify this particular editorial or this particular letter from the man named Stolper by a press statement. There is something in the paper nearly every day criticizing our tax program. If you consider this worthy of attention, then it should not be attended by you as Secretary, but you should have your staff consider it and perhaps a letter by me to the New York Times replying to it or something like that. The net result of these is that there is a little something in it but it is half cock-eyed.

H.M.JR: Could I read it?

MR. PAUL: Sure. Excuse me, I just want to - I thought you were limited in time.

H.M.JR: No, let me just read the thing a minute.

- 2 -

MR. PAUL: One deals with the editorial and the other deals with the Stolper letter.

H.M.JR: Let me read this. This is good. He is learning. He has a page and a half.

MR. PAUL: Well, I want to say for Roy that he has done a masterpiece there in compressing it to that.

MR. BLOUGH: A little more time and we would have done a little better.

H.M.JR: Let me just read this. Well, the thing that - this thing here, if they say - on this income it is estimated at the existing rates persons with incomes below will pay - no. I will go to statement one. Salaries, wages for three years. The great bulk of this increase would go to incomes below three thousand. Well, when the increase goes to people below three thousand then their income rises above three thousand.

MR. PAUL: In some cases and in other cases it puts it above. In some cases of this great increase people will receive low incomes or it won't put them over three thousand.

MR. BLOUGH: This is a low figure because some people, as you say, will have been pushed above three thousand.

H.M.JR: Well, here is the thing. I am just thinking. I think this - rather than arguing, how about giving this stuff to Jere Cooper and let Jere Cooper do it.

MR. TARLEAU: + think he might like to do that.

H.M.JR: He was wonderful with the NAM.

MR. PAUL: I was up there and I heard him.

MR. TARLEAU: What do you think, Roy?

MR. BLOUGH: You might inquire and ask if he cared to.

MR. TARLEAU: It puts the thing on the record and it doesn't dignify it by having the Secretary answer every editorial that comes up.

MR. PAUL: Anything that you can do to keep from selecting one particular letter--

H.M.JR: I would like to thank Jere Cooper for what he did on NAM.

MR. PAUL: I will run up and see him if you want.

H.M.JR: And say we have got this thing and how would you like to handle it.

MR. PAUL: That is quite right. They are doing that every day in the Record. They are putting in things of that sort. My feeling is merely to keep you, as Secretary of the Treasury, from advertising the New York Times.

March 16, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Editorial in New York Times, March 16, 1942.

The point featured in this editorial is that on the basis of National Resources Planning Board figures, one-third of all the consumer units of the country (families and single individuals) have incomes of less than \$780 a year, while two-thirds have incomes of less than \$1,450 a year; and also that families and single individuals having income of less than \$2,000 comprise 82 percent of the consumer units and account for 60 percent of consumer purchases.

The main point of the editorial is summed up in the following sentences:

"If these figures are correct, it appears that a substantial majority of all consumer units accounting for a very large part of all consumer expenditures must be exempt from income tax." The question is: "Whether it is not necessary in one way or another to dip still further into the current purchasing power of those units which, despite their low incomes, constitute the majority of consumer units, in order to prevent the still greater hardship of inflation."

Comments:

(a) The National Resources Planning Board figures cited by the editorial are for 1935-1936. Incomes have risen substantially since then. According to more recent estimates made by the Office of Price Administration on the same basis as the National Resources Planning Board estimates, in 1942 only one-sixth (instead of one-third) of all consumer units will receive incomes below \$780, and slightly less than one-half (instead of two-thirds) will receive incomes below \$1,450 a year;

- 2 -

and families and single individuals having incomes of less than \$2,000 will comprise two-thirds (instead of 82 percent) of the consumer units. We estimate that families and single individuals with incomes less than \$2,000 account for about 50 percent (instead of 60 percent) of consumer purchases.

(b) Some families with incomes over \$2,000 will not be subject to tax because of the credit for dependents; on the other hand, some families and many single individuals with incomes below \$2,000 will be subject to tax. In all, it is estimated that in 1942, under present exemptions, about one-third of all persons receiving incomes will be subject to the income tax. These persons will account for more than 55 percent of the total income received by all persons and for about half of all consumer purchases.

(c) The revision in figures does not change substantially the policy question posed by the editorial. Although the problem is somewhat less serious than the editorial suggests, it is true that about half of the consumers' purchasing power is not reached at all by the income tax and substantially half of the balance is largely relieved by the exemptions to people paying some tax.

RB:dad
3/16/42

March 16, 1942

MEMORANDUM FOR THE SECRETARY

From Mr. Blough

Subject: Comments on the letter of Mr. Gustav Stolper, published in the New York Times, Sunday, March 15, 1942.

The principal points made by Mr. Stolper against the Treasury position, together with comments on them, are as follows:

1. Statement:

Salaries and wages in the three years 1939 through 1942 will have risen \$20 billion. A great bulk of this increase goes to income groups below \$3,000. "Of these \$20 billion, the Treasury actually proposes to draw \$300 million in income taxes."

Comments:

a. The statement appears to be substantially correct with respect to the \$20 billion increase in salaries and wages. There appear to be no studies showing the distribution of this increase but it is probable that a large part has gone to income groups below \$3,000.

b. On 1939 incomes, persons with incomes below \$3,000 paid only \$42 million in individual income taxes, or less than 5 percent of total individual income taxes. On 1942 incomes, it is estimated that at existing rates of tax, persons with incomes below \$3,000 will pay \$750 million, or over 14 percent of all individual income taxes. The increase in rates proposed by the Treasury will almost double the taxes paid by persons with incomes below \$3,000, so that under these higher rates they would pay about \$1,450 million, or more than 17 percent of all individual income taxes.

- 2 -

2. Statement:

The figures which the Secretary presented relating to percentages of income taken in Federal, State and local taxes were probably predicated on Monograph #3 of the T.N.E.C. "Who Pays Taxes?" Apart from serious statistical mistakes, this study makes two important misqualifications. It qualifies social security payments as taxes and it qualifies real estate taxes as being borne by the tenants.

Comments:

a. The Treasury study was made independently of the T.N.E.C. study. While similar techniques were used, the treatment of certain taxes was materially different. The Treasury percentages of tax are substantially lower than those shown in the T.N.E.C. study.

b. The social security taxes are properly grouped with all other taxes for purposes of measuring the compulsory payments imposed by Government and determining how much of the income at these levels is already being appropriated by the Government.

c. In the Treasury study, real estate taxes were counted in part as taxes on tenants (and owner occupants) and in part as taxes on business, shifted to consumers. This was judged to be the most realistic treatment of these taxes in the light of available data.

3. Statement:

The proposed corporation taxes will not curtail consumption by one dollar. They cut entirely into the savings fund of the Nation and may create ghastly consequences by destroying working capital to operate business in the post-war period. High corporate taxes destroy the incentive to efficient operation.

Comments:

a. We cannot expect other groups to make heavy sacrifices and not to demand increased incomes unless corporate profits are taxed heavily. Public morals can be maintained only if corporations are required to

- 3 -

pay a large share of the cost of the war.

b. The high corporate taxes will prevent increases in dividends which would be inflationary.

c. The expectation that the proposed Treasury rates will destroy efficiency of operation is a matter of opinion. We do not agree that it will have any serious effect on production or efficiency during the war emergency, particularly since where the tax on any dollar of income exceeds 80 percent such excess shall be placed in a reserve for repayment to finance employment after the war.

d. Since taxes are levied on income they do not reduce working capital unless there has been a mistake in determining income. The Treasury has suggested that provision be made for correcting mistakes of this kind.

HBI:rd
3/16/42

Mr. Crawford substituted for Mr.
Baukhage on the radio last evening.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

March 16, 1942

Attached is the transcript of the Crawford talk. He gets to taxes on page 3. I suppose you had reference to his discussion of the National Association of Manufacturers in next to the last paragraph and sales taxes in the last paragraph.

ASP

Attachment

Kenneth Crawford, P. M., National Broadcasting Company, March 13, 1942

News of the total war ranges the whole broad expanse of the globe today, some good, some very bad. Here it is in quick summary, starting at the other side of the earth and working home:

The Navy announces that one of our submarines has bagged three freighters and a cargo ship in Japanese waters. It appears that the United States Navy is beginning to play the game in the Pacific against the Japanese as well as the German Navy plays it against us in the Atlantic.

The Navy further reveals that United States fighter planes have shot down a Japanese bomber west of the Midway Islands. The Midways are the closest of the Pacific stepping stone bases leading out toward the Philippines and we still hold them.

The biggest of the current Pacific battles, of course, is the sea and air fight for New Guinea. The Japanese have made landings on this island down under the equator and 480 miles north of the Australian port of Darwin in spite of heavy losses. The Royal Air force claims to have littered the beaches of New Guinea with the wrecks of bombed transports and warships. Tokio acknowledges the loss of three fighting ships there.

Whether the Japanese consider New Guinea necessary for the defense of Java, which it has recently won from the Dutch, or whether they want the islands as a base for the invasion of Australia is not yet clear. Most military experts are guessing that the Japanese will try to establish themselves in northern Australia.

- 2 -

It is unlikely that they will try to stretch their communication lines another 2000 miles southward to Sydney or Melbourne. A strong position in the north as a backstop to their scattered holdings in the Indies would serve their purpose.

There is no doubt that within recent weeks the defenses of Darwin have been strengthened. There is reason to believe that the high command foresaw the fall of Java and concentrated the bulk of American and British aid on the Australian continent. If so, the Japanese will be met by powerful resistance on the sea, in the air, and on land.

There is the possibility too, that the invaders may attempt to gain a foothold on the continent by clambering ashore on rocky Cape York, which projects within 47 miles of New Guinea, rather than brave the guns of Darwin's twin islands, Melville and Bathurst. These two islands, which guard the entrance to Darwin's harbor, are 120 miles long. On the east the Cobourg Peninsula forms a natural barrier to entry into the port. However, such a move would meet with continual harrassing from the Darwin base and the Japanese may consider it sound strategy to aim straight at the Darwin objective.

In the Atlantic, meanwhile, the British Navy is presumably trying to continue its attack on the 50,000 ton German superdreadnaught, Tirpitz, which was spotted at sea early this week and attacked by torpedo planes. The big ship escaped under a smoke screen and is thought to have taken refuge in a Norwegian port.

- M -

On the continent of Europe the Russians are pounding away at the Nazis north of Smolensk, trying to prevent Hitler's armies from reorganizing for the anticipated spring offensive.

Closer to home, in the Carribean, U-boats accounted for a British tanker and a Swedish freighter, according to an announcement from the Navy.

Here in the United States there were two interesting and perhaps important announcements growing out of Japan's seizure of the Malayan Peninsula and the Dutch East Indies---the sources of our all-important tin and rubber supplies. Officials of the University of Nevada said they had found tin deposits in Nevada and Dr. Paul Kolacher told a House Committee the Russians had developed a dandelion that, if transplanted and cultivated in this country, might yield a substitute for rubber.

All of this brings me to the unpleasant subject of taxes. This global warfare, the necessity of finding new sources of vital supply, all cost money. Next Monday is the last day for filing income tax returns. Take what satisfaction you can from the knowledge that what you are paying this time is at a bargain rate. Next year you will really pay--just how much is now being decided by Congressional Committees.

The National Association of Manufacturers brought in its long heralded program today and asked that Congress adopt it in preference to the Treasury's plan. The NAM, which represents the nation's largest manufacturers, has been making the startling statement that it wants to tax these same corporations to the limit of safety.

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But what the NAM proposed when it got down to cases was that the Treasury's corporation taxes be materially reduced, instead of taking \$3,400,000,000 out of the corporations, as the Treasury suggests, the NAM wants to take \$1,400,000,000 out of them in corporation taxes. To make up the difference and raise a large part of the money needed to finance the war, the NAM wants to levy an 8 per cent sales tax---four per cent as a tax on manufacturers sales and four per cent on retailer's sales.

Another Congressional committee learned today that the Todd Shipyards Corporation made a profit last year of \$5,000,000 on its \$25,000,000 investment. It is clear that the NAM tax program would spare the Todd Company's war profits to an extent that the Treasury would not. It is also clear that a sales tax would hit the average citizen harder than the Treasury's plan, since it would hit all of us alike, making no distinction between those of us who make war profits and those of us who don't. The Administration has opposed such a general sales tax on the ground that war taxes should be levied on a basis of ability to pay. And we shall all pay, whether more or less depending upon the nature of the plan Congress adopts. Thank you!

March 16, 1942
3:55 p.m.

Jere
Cooper: Hello.

HMJr: Jere?

C: All right, Henry.

HMJr: How are you?

C: Fine, thank you. How are you?

HMJr: I'm fine. Say, that was a masterly thing you did on that NAM thing.

C: Well, thank you.

HMJr: I just - I thought that was one of the finest jobs I've seen done in a long time.

C: Well, thank you. That's very kind, and I appreciate it, Henry.

HMJr: I gather you got that fellow's goat.

C: Well, I think I shook him down considerably.

HMJr: Well, I know him. He just thinks he's a little bit better than anybody else in this world.

C: Yeah.

HMJr: He's an awful conceited ass.

C: That was my impression of him.

HMJr: Yeah. And he made his money very easily and too quickly.

C: Uh huh.

HMJr: Yeah. And I remember I met him down - oh, six or seven years ago in Warm Springs, and he was flying around the country with his own private pilot.

C: Oh.

- 2 -

HMJr: Yeah. He's that kind of a fellow.

C: Yeah. Big guy.

HMJr: Big guy, oh, yeah.

C: Yeah.

HMJr: Now, seeing that you've got on the armor and the horse and so forth, how would you like to take on today's editorial in the New York Times, where they go after us on our figures on income and lowering exemptions and all that? We've got all the answers; the boys have done the work.

C: I haven't seen it yet, Henry.

HMJr: Well, would you like Randolph to walk it up?

C: Yes, I'll be glad. Let him bring it up, and I'll be glad to go over it with him.

HMJr: When would you like to see it?

C: Oh, I guess in the morning would be all right.

HMJr: All right, I'll tell him.

C: All right.

HMJr: And - but I sure enjoyed reading about you the other day.

C: Well, thank you. That's very kind, Henry. I appreciate it.

HMJr: Thank you.

C: Appreciate your calling.

HMJr: Good-bye.

C: Good-bye.



TREASURY DEPARTMENT
WASHINGTON

March 15, 1942

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

MEMORANDUM FOR THE
COMMISSIONER OF INTERNAL REVENUE
AND REVENUE

me

MEMORANDUM for Mr. Sullivan:

Reference is made to your request for a memorandum containing the information we might have from collection districts, indicating comparative collections on returns for the filing period 1942 as compared with the filing period 1941. As explained to you, we do not have information from all districts and it will not be until the Collectors have listed their returns that accurate figures as to the number of returns filed by classes can be obtained.

As an indication of the difficulties which will be encountered by Collectors this filing period in submitting reports, a conversation was just had with the Collector of the Maryland District. The Collector indicated that after working all day yesterday in preparing their receipts for deposit, there remained 25 unopened mail bags. It being the heavy day before them and with additional receipts coming in today, there is no doubt that any report submitted by the Collector as to the estimated amount on hand undeposited will be a very difficult guess. As you probably know, at the close of business tomorrow, Collectors will send to us a telegram indicating the total amount deposited up to date, as well as an estimate of the amount on hand undeposited. When those telegrams are received tomorrow and have been tabulated, a copy of the tabulation will be sent to you.

The following information concerning specific collection districts may have some value in connection with your request for a memorandum:

1st Illinois District: (January 1 to March 12, inclusive)

	Filing Period 1941	Filing Period 1942
Receipts (individual returns)	256,300	582,900
Outstanding (individual returns)	137,500	127,600
Grand total	393,800	710,500

Receipts from January 1 to March 12, inclusive \$44,331,885.67 *\$84,939,255.12

*Includes Treasury Notes (January 1 to March 12, 1942) \$7,646,059.15



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Indiana District: (January 1 to March 7, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Exempt (individual returns)	51,300	165,000
Taxable (individual returns)	71,467	108,900
Grand total	<u>122,767</u>	<u>261,900</u>
Receipts - Jan. 1 to March 7, inc.	\$5,441,120.63	\$22,089,180.74

Missouri District: (January 1 to March 7, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Exempt (individual returns)	22,030	49,692
Taxable (individual returns)	32,159	29,873
Grand total	<u>54,189</u>	<u>79,565</u>
Receipts - Jan. 1 to March 7, inc.	\$1,139,307.70	\$3,412,798.01

1st Missouri District: (January 1 to March 7, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Exempt (individual returns)	36,900	90,100
Taxable (individual returns)	81,400	62,196
Grand total	<u>98,300</u>	<u>152,296</u>
Receipts - Jan. 1 to March 7, inc.	\$5,242,294.20	\$13,074,638.09
*Includes Treasury Tax Notes in the amount of \$1,421,708.32		

2nd Illinois District: (January 1 to March 7, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Exempt (individual returns)	25,600	97,900
Taxable (individual returns)	No record	84,265
Grand total		<u>182,165</u>
Receipts - Jan. 1 to March 7, inc.	\$3,523,389.27	\$10,334,258.23
*Includes Treasury Tax Notes in the amount of \$157,389.36		

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1st New York District: (January 1 to March 4, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Taxable (individual returns)	24,966	47,238
Non-taxable (individual returns)	47,000	50,100
Grand total	<u>71,966</u>	<u>97,338</u>
Receipts - Jan. 1 to March 4, inc.	\$2,096,309.23	\$4,200,646.57

2nd New York District: (January 1 to March 7, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Taxable (individual returns)	16,942	30,509
Non-taxable (individual returns)	27,083	28,500
Grand total	<u>44,025</u>	<u>59,009</u>
Receipts - Jan. 1 to March 7, inc.	\$11,006,762.02	\$18,515,369.15

3rd New York District: (January 1 to March 4, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Taxable (individual returns)	9,057	33,118
Non-taxable (individual returns)	21,679	17,145
Grand total	<u>30,736</u>	<u>50,263</u>
Receipts - Jan. 1 to March 4, inc.	\$1,933,727.31	\$6,782,082.74

Maryland District: (January 1 to March 14, inclusive)

	<u>Filing Period 1941</u>	<u>Filing Period 1942</u>
Total receipts	\$11,337,515	\$35,621,040.08

Acting Commissioner

March 16, 1942
4:45 p.m.

General Smith: Hello, Mr. Secretary.

HMJr: General.

S: Yes, sir.

HMJr: Two things that I'm interested in - any headway on keeping airplanes from flying around on this Atlantic Coast who have no business here?

S: I don't know, sir. I made a memorandum of what you said and sent it to Mr. Lovett, the Assistant Secretary for Air and I haven't checked up on it to see what he's done or if he's been able to do anything.

HMJr: Well, I tell you, I'm expecting General Marshall for lunch tomorrow. Hello.

S: Yes.

HMJr: And I'd kind of like to know if anything's happened before I see him.

S: I'll call Mr. Lovett and find out if he's there, sir.

HMJr: And then the other thing was.....

S: A separate landing field.

HMJr: Yeah.

S: Yes, sir. I'll see what they propose, if they propose anything. I don't know, sir.

HMJr: Yeah.

S: You see, I'm almost out of touch with those people over here. I don't see them very often.

HMJr: Well.....

S: It's rather difficult for me to.....

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- 2 -

HMJr: Would you rather not.....

S: Oh, no. I mean, when I was at the other place, you know, I could just - well, just walking from one office to another.

HMJr: I see.

S: And contact isn't quite as close as it used to be.

HMJr: Look, don't hesitate any time I ask for something that's out of your line to tell me.

S: Oh, no, this is quite all right; but I'm not able to give you - to get quite the same close contact where I can see them just in a minute, you see.

HMJr: I see.

S: I'll get word to you, sir.

HMJr: Well, I just didn't want to start - you know, raise hell about it.....

S: Yes.

HMJr: But that thing about getting those airplanes out of this zone, that ought to be done.

S: Yes, sir. I'll get a report back before you have General Marshall - before you see General Marshall.

HMJr: Yeah.

S: Now, then, did Saville call you about the trip?

HMJr: Everything's fine.

S: I thought he had a very good program.

HMJr: Very good.

S: Yes, sir.

HMJr: I hope you'll be able to go.

- 3 -

S: I'm going to try to go, sir.

HMJr: Don't feel you have to.

S: No, I want to go, very much. The only thing that would keep me from it is if something happens at this conference tomorrow which keeps us busy all night and the following day.

HMJr: Well, it comes under the - it ought to come under the heading of a "refresher".

S: (Laughs) All right, sir.

HMJr: (Laughs)

S: You'll have a nice trip, though, and I'll get word about this other.

HMJr: Thank you.

S: Yes, sir.

March 16, 1942
6:30 p.m.

To: Secretary Morgenthau
From: Brig. General Walter B. Smith

SEPARATE FIELD FOR PURSUIT SQUADRON NOW AT BOLLING

The War Department has written the President, asking for authority to establish a field at Camp Springs (this is the high ground back of Bolling Field). This would put the pursuit squadron on its own field, and would avoid the fog and mist which is so prevalent at Bolling.

CIVILIAN PLANES ALONG THE ATLANTIC COAST

Control of civilian planes is under the Director of Aviation, Office of Civilian Defense. The Director is General Connolly. The War Department has no direct authority and has not considered grounding or moving civilian planes from the Coast area, because they are being used now in the Civilian Air Patrol, which is a function of the Office of Civilian Defense.

W. B. S.

March 16, 1942
4:55 p.m.

Edward
Foley:

We've got you on the loudspeaker here, and I was wondering how things were going. Can you talk?

Joseph
O'Connell:

I'm sitting alongside of Judge Mack, and they're in the middle of holding the meeting. They have read a number of resolutions relating to the business of the concern. They haven't reached the point of the program that is primarily of concern to you. The program involved, if I may - Judge Mack can correct me if I'm wrong on this - the acceptance of the resignations of the three gentlemen who are absent, that is Mr. Schmitz, Mr. Hutz, and Mr. Baragwanath, all of whom have sent in their resignations. That would leave.....

F: Yeah. Hello.

O: Yes.

F: That will - what?

O: That will leave - they also have a communication from Mr. Bullitt, clarifying his status and indicating that he had intended to resign when he wrote that letter several weeks ago. That resolution has already been adopted accepting his resignation.

F: I see. And he resigned not only as Chairman, but also as.....

O: Also as a member of the Board.

F: Right.

O: Now, then, when the resignations of Mr. Schmitz, Mr. Hutz, and Mr. Baragwanath have been adopted, that will leave seven members of the Board, all of whom are present, still members of the Board.

F: Yeah.

- 2 -

- O: Now, then, it is my understanding that they at that point will elect Mr. McConnell, Mr. Wilson, Mr. Marshall, and Mr. Moffett, and that then the by-laws will be amended to reduce the directorate to five in number, at which point after that amendment has been made by the full Board, the remaining members of the Board of Directors - that is, the directors who are here now - will tender their resignation, at which point they will be left with an existing Board of four out of five.
- F: That would be our nominees.
- O: That's right.
- F: With one vacancy.
- O: With one vacancy.
- F: And Bob McConnell would be made president?
- O: Then this meeting would adjourn. You see, they have to call a special meeting of the new Board for the purpose of electing Bob McConnell as president, because that can only be done under the by-laws at a meeting called only for that purpose.
- F: I see. So the old - you will adjourn this meeting and then call immediately a special meeting of the new Board.....
- O: That's right.
- F:and Bob McConnell will be made president.
- O: That's right. President and Chairman of the Board.
- F: And that'll all be done today.
- O: That will all be done, I should say, within the next half or three quarters of an hour. Mr. McConnell and the other members came over about three o'clock and had a very pleasant talk with Judge Mack, and he was very helpful. Judge Mack says to tell you that he welcomes them with open arms.

- 3 -

F: Well, that's fine.

O: And they had a number of other matters to take up at the early part of the meeting. That explains why we haven't probably gotten further.

F: Right. Well, I was just anxious to find out how the thing was going. Now, is that statement that you read to me from McConnell going to be given out as you read it?

O: It's going to be given out as I read it, with one slight revision which Bob made. I don't have a copy of it in front of me, but the sentence - he will give that out at the close of the meeting - and the sentence which refers to the - do you have it in front of you?

F: No, I don't. I'm not in my office.

O: I think it is fair to say that there is no substantial change. There's one slight change in verbiage which all of the new directors wanted to make. It doesn't change the substance.

F: Well, I'll tell you what you do, Joe. As soon as the meeting is over, would you step to a telephone and give me the wording of that change because the newspaper fellows down here want to get a copy of that statement.

O: I can have them on the other phone. Bob won't be - I can have someone outside.....

F: All right.

O:read that to you in a very few moments.

F: All right. If you could have that done.....

O: I can have that done.....

F: All right. I'll have somebody in my office have that statement that you gave me in front of them, and then it can be corrected and we'll have it mimeographed here; and then when it's released

- 4 -

up there, you let me know by phone and we'll let it out down here.

O: Yeah. Now, do you have a copy of Mr. Crowley's telegram?

F: Not in front of me. Yes, I have it.

O: If you have it - Mr. Mack has a copy in front of him and additional copies. I thought maybe you'd want that read over the phone, too. So far as I know, the only thing that is to be given out to the newspapers are Crowley's telegram, plus the short statement by McConnell.

F: Yeah.

O: That's all that I know of.

F: All right. And you're not going to make any statement?

O: No, not at all. No need for it.

F: And you don't think there'll be need for it.

O: No.

F: All right, Joe. Well, when it's all over, step to the phone, will you, and call me?

O: I will. But right away I'll have someone call you and read you McConnell's statement.

F: Good. Fine.

O: Okay.

F: Thank you very much.

O: Wait a minute now. All right. That's all, Ed, I guess.

F: Okay.

O: Good-bye.

F: Thank you.

TREASURY DEPARTMENT
Washington

STATEMENT OF THE NEW MANAGEMENT OF
GENERAL ANILINE AND FILM CORPORATION

March 16, 1942 *

The United States Government has acquired title through the Secretary of the Treasury to 97 percent of the stock of General Aniline and Film Corporation.

Secretary Morgenthau and Alien Property Custodian Crowley have jointly requested Robert E. McConnell to act as executive officer of this company, and have jointly approved the election of the new four-man Board of Managing Directors, composed of Robert E. Wilson, A. E. Marshall, George Moffett, and Robert E. McConnell.

The Board has been instructed to complete the Americanization of the company to make sure that all employees render faithful and loyal service, produce military requirements at maximum capacity, provide the corporation with efficient, business-like management and in all ways conduct the affairs of the company to the best interests of the country.

Until such time as it is possible properly to select competent experienced and permanent working management which will then be expected to function under the general supervision of this Board, the new Board will conduct all administrative and corporate affairs of the company.

The corporation is already engaged in consummating important contracts for the Army and Navy. Plant production on such war material will be increased as rapidly as possible.

-oGo-

* Given out in New York.

30-77

TREASURY DEPARTMENT

116

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 16, 1942

TO: Secretary Morgenthau
FROM: Mr. Haas
Subject: The Business Situation,
Week ending March 14, 1942.

Summary

(1) A sharp increase in consumer expenditures in retail stores during January is disturbing, from an inflation standpoint, in view of the necessary curtailment in production of civilian goods. Unless such expenditures shortly begin to decline, in line with the trend of supplies, the result will be merely a bidding up of prices for the available supply of goods.

(2) Department store sales moderated somewhat in February, declining to 21 percent above the 1941 level as compared with 37 percent in January. Since prices of department store goods on March 1 averaged about 18 percent higher than last year, consumers bought but little more in actual goods than they did in February last year, although spending 21 percent more money.

(3) The effectiveness of over-all price control in Canada is indicated by the declining trends of living costs and retail food prices in that country since December 1, when the controls went into effect, as contrasted with sharp increases in the United States during the same period.

(4) Basic commodity prices moved a trifle higher last week as uncertainties over the outcome of legislative developments and governmental measures confined price changes to a relatively narrow range. In the first week in March, the BLS all-commodity index of wholesale prices rose 0.1 point to a new high at 96.9. This is 29.2 percent above the level prevailing in August 1939, just before the outbreak of the war.

(5) Stock prices showed a further gradual decline last week to new lows for the current move. The Dow-Jones industrial stock average sagged to within a fraction of the previous low point touched in 1938. Although industrial stock prices in London also moved lower, the recent decline in that market has been smaller than in New York.

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Consumer expenditures show inflationary trend.

Of major interest in the current price situation is the growing disparity between consumer incomes and the supply of consumer goods. This disparity has already become an important factor in the continuing rise of commodity prices, although its effect has been cushioned temporarily by the stocks of consumer goods built up from previous production. All attempts of consumers to increase their spending will obviously have little or no effect in increasing the supply of goods, but will merely result in higher prices for the same goods.

Knowing that the volume of consumer spending must be reduced drastically in the months ahead if price inflation is to be avoided, some measure of the developing inflationary pressure on prices may be derived from the actual trend of consumer expenditures. It is of especial interest from an inflation standpoint to know to what extent consumer incomes are currently being diverted from normal spending channels.

In Chart 1, total consumer expenditures for goods and for services (Department of Commerce estimates) are compared with the trend of salaries and wages, monthly 1938 to date. For convenience in interpretation, "expected" expenditures are also shown, based on the average relationship of consumer expenditures to salaries and wages during the 6-year period 1935-1940. It will be noted (upper section of chart) that expenditures for goods, as indicated by retail store sales, increased sharply in January, instead of showing the decline needed to prevent inflationary pressure on prices.

It will be noted that expenditures for goods are not as high as could normally be expected from the current high level of incomes, owing largely to the effect of such control measures as high taxes, Defense Bond purchases, installment credit restrictions, and shortages of available goods. Nevertheless, it is becoming more and more obvious that expenditures for consumer goods generally cannot be maintained even at present levels without inflationary effects, in view of the growing curtailment in production of consumer goods (with the important exception of food).

Clothing heavily bought in January.

The types of goods into which consumer buying was most heavily directed during January is indicated by Table 1. It will be noted that sales by apparel stores headed the list with an increase of 33 percent, as compared with an

increase of 8 percent for all stores. In that month a heavy hoarding movement developed in both men's and women's clothing, with widespread reports of customers buying far in excess of current needs. Sales by household furnishing stores were second, with a 22 percent increase. The curtailment in automobile sales, on the other hand, caused a drop of 38 percent in sales by auto and auto supply stores.

Confidential estimates by the Department of Commerce of consumer expenditures for services show a marked upturn (5 percent) between September and December 1941. January figures are not yet available. (See lower section of Chart 1.) Largest increases in the unadjusted figures were for household utilities and medical care. Increased expenditures for services probably have little immediate inflationary effect, although eventually they contribute to inflation through competition for labor and various materials.

Department store sales gain narrows in February.

After running 37 percent above year-earlier levels in January, the gain in Department store sales last month narrowed to 21 percent. This moderating of the sales pace was also evidenced by a drop in the FRB adjusted index of department store sales to 125 for February from the record figure of 138 reached in the previous month.

An indication of the sections of the country which are contributing most to the pressure of consumer buying is given in Table 2, which shows by Federal Reserve Districts the percentage increase in department store sales over the previous year in the most recent 3-month period, and in the month of February. Both comparisons, it will be noted, show the largest increases in the area centered around Washington, D. C. and nearby States. The smallest increases, on the other hand, are in the farming areas, particularly in the cotton sections.

Reflecting the pressure of heavy buying, retail prices continued to rise during February. By March 1 a representative price index of typical department store items was 1.5 percent higher than a month earlier and 18.4 percent higher than on March 1, 1941. When consideration is given to this rise in prices, it will be seen that the unit volume of department store sales last month actually was very little above year-earlier levels.

More recent sales show renewed rise.

In the first week of March, consumer buying again picked up, and the sales gain over the corresponding week of 1941 widened to 28 percent, as compared with 19 percent

in the previous week. (See Chart 2.) While it is yet too early to draw accurate conclusions, this strong sales showing may foreshadow less slowing up in trade due to income tax payments than some observers had expected. At the beginning of next week, however, consumer buying will run into another retarding factor in the additional restrictions on installment buying recently ordered by the Federal Reserve Board. Minimum down payments will be increased for many items, and the time limit will be cut down in most instances. Moreover, 7 additional articles will be added to the list now subject to regulation.

Prices hesitate under week's influences.

Developments reported from Washington again dominated the price situation last week. Government purchases of war supplies were reported in great volume, particularly of such items as textiles and food products. Yet prices moved only slightly, owing to uncertainty concerning the outcome of pending legislation designed to bar sales of most Government-owned farm products at prices below parity. Further price uncertainty was caused by statements of the President in his press conference last Friday indicating that he was studying proposals to place ceilings on wages and profits as well as prices, and by new evidence of a rounded OPA program to halt cost-of-living increases.

Wholesale price indexes of commodities little changed.

As a net result, changes in basic commodity prices were limited to a narrow, slightly upward movement. (See Chart 3.) The index for 16 industrial raw materials was up 0.4 percent, reflecting a further sharp advance in the price of flaxseed and small increases in wool and cotton prices. Among the 12 foodstuffs, hog prices again advanced, making a gain of 32.6 percent since December 6.

The BLS all-commodity index in the previous week (ended March 7) continued its broad upward movement, rising 0.1 point to 96.9. This is 29.2 percent above the August 1939 pre-war level, and 5.1 percent above that of the week before the attack at Pearl Harbor.

Living costs in the United States at Canadian level.

Comparison of the cost-of-living indexes for the United States and Canada show strikingly the effect of over-all price control in the latter country. (See Chart 4.) It may be noted from the chart that the cost of living in the

United States, according to the BLS index, was substantially below that of Canada until our entry into the war. Since then the index has risen sharply, while the Canadian index has turned downward. (The BLS index for February is estimated from the Conference Board cost-of-living index). The Dominion's over-all control of prices and wages was put into effect December 1.

In the lower half of the chart, the effectiveness of the Canadian control of food prices is evidenced by a similar decline since November. This is in marked contrast to the sharp and continued rise of food prices in this country, now higher than Canadian prices, and is more telling in view of Canada's longer participation in the war.

Ceilings placed on pork and textile products.

As war production needs cut more deeply into supplies of goods available for civilians, the OPA announced that temporary price ceilings would be placed on two groups of commodities of major weight in the cost of living, -- pork products and finished cotton and rayon textile goods. The schedule on pork products, at prices prevailing between March 3 and 7, becomes effective March 23. It is reported in the press that ceilings on beef and veal are also imminent.

The ceiling on finished piece goods, the OPA stated, aims to check a "rapid and unwarranted rise in prices" for clothes and housefurnishings, including women's and children's dresses, suits, coats, and men's shirts. The schedule limits prices to those prevailing between March 7 and 11, but the OPA considers many of those as entirely too high, and has indicated that the permanent ceiling to follow would be on a substantially lower scale. A WPB priorities order that 80 percent of top-grade leather soles be reserved for shoes for the armed services, has been followed by press reports of expected OPA action on shoe prices.

Record production and consumption of cotton goods.

The OPA action on prices for finished piece goods came after a fortnight of huge Government orders for various textile products, including woolens. A record 1942 production of 12,500,000,000 yards of cotton goods is forecast by the President of the Cotton Textile Institute. Since the current rate of war consumption on an annual basis is estimated by trade sources at more than 60 percent of such a total, it is believed that Government allocation of cotton textiles for civilian uses may be necessary. A further advance in the daily rate of consumption of raw cotton to a new record high is shown by census figures on consumption in February. At the February daily rate, raw cotton consumption in March would be largest of any month on record.

Stock prices show further decline.

Stock prices continued to decline gradually last week to new lows for the current move, although some strengthening was noted near the end of the period. The Dow-Jones average of industrial stock prices dropped slightly under the 100 level for the first time since 1938, and came within a fraction of the low point touched that year. The average for utility stocks showed a further fractional decline to a new low since compilation of the average was begun in 1929. Railroad stocks also eased slightly, but continued to show relatively good resistance to the decline, although opposition of the OPA to some of the recently authorized freight rate increases checked rallying tendencies near the end of the week. The volume of trading was limited to moderate proportions throughout the week and on no day reached as much as 500,000 shares.

Industrial stock prices also moved slightly lower in the London market last week, but the recent decline there has been of smaller proportions than in New York. (See Chart 5.) Both markets have been confronted with adverse war news, but selling in the New York market is also attributed in large measure to uncertainties over earnings and dividends as a result of prospective tax increases. Furthermore, some selling may have been going on recently to obtain funds for income tax payments.

Early start in Great Lakes shipping planned.

During the past week the Secretary of the Interior indicated that, under present plans, shipping on the Great Lakes would probably get under way by March 26, which would be considerably earlier than usual. However, it remains to be seen if weather conditions will permit such an early start. The ice in Buffalo Harbor, for example, was reported recently to be 20 inches thick. In any event, it is intended to lengthen the usual summer loading season for iron ore by at least a month.

Recently it was reported that the WPB may request ship operators to move 92,000,000 tons of iron ore down the Great Lakes during the 1942 navigation season. Inasmuch as last year's record ore movement was only 80,000,000 tons, it will be seen that ship operators will be confronted with a formidable task. Last week, legislation authorizing the construction of an additional lock at the Soo connecting channel was approved, and actual work now awaits only appropriation of the necessary funds by Congress. The construction of an additional lock at the Soo has been advocated as a safeguard and an aid to the transportation of vital iron ore supplies down the Great Lakes.

Despite continuing complaints of scrap shortages, steel operations have been moving slowly higher. The tonnage of steel ingots scheduled for production this week will again exceed the previous record, as operations are scheduled to advance to 97.9 percent of capacity from 97.4 percent last week.

Table 1

Sales by retail stores in January,
seasonally adjusted, increase over December

Type of store	Percent increase
Apparel	33
Household furnishings	22
General merchandise	21
Filling stations	12
Food stores	10
Building materials and hardware	8
Drug stores	4
Eating and drinking places	3
Auto and auto supply	-38
All retail stores	8

Source: Department of Commerce

Table 2

Increase in department store sales
over previous year, by Federal Reserve districts

Districts	3 months	
	December 1941 to February 1942	February 1942
	Percent increase	Percent increase
Richmond	33	35
Philadelphia	31	32
Cleveland	29	21
St. Louis	27	21
Boston	24	17
San Francisco	24	25
Chicago	24	20
Kansas City	23	14
Minneapolis	22	19
New York	21	18
Dallas	18	8
Atlanta	17	7

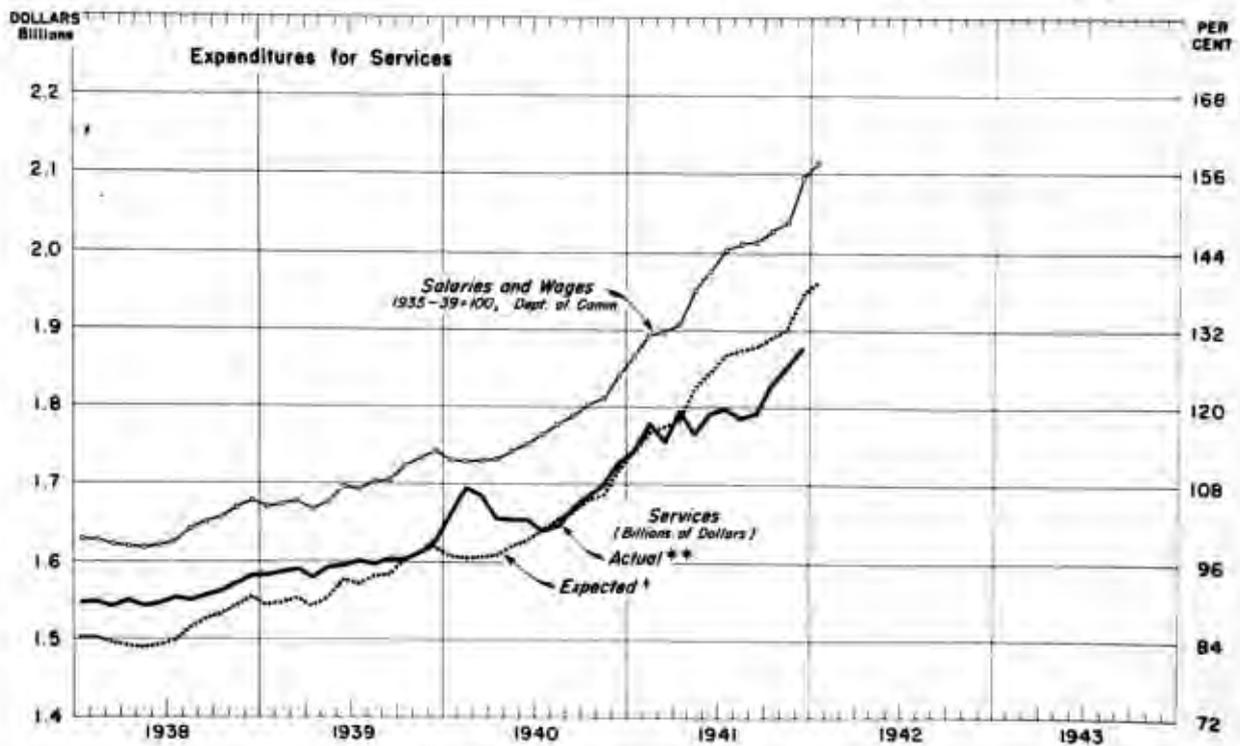
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San Francisco	24	25
Chicago	24	20
Kansas City	23	14
Minneapolis	22	19
New York	21	18
Dallas	18	8
Atlanta	17	7

CONSUMER EXPENDITURES COMPARED WITH SALARIES AND WAGES

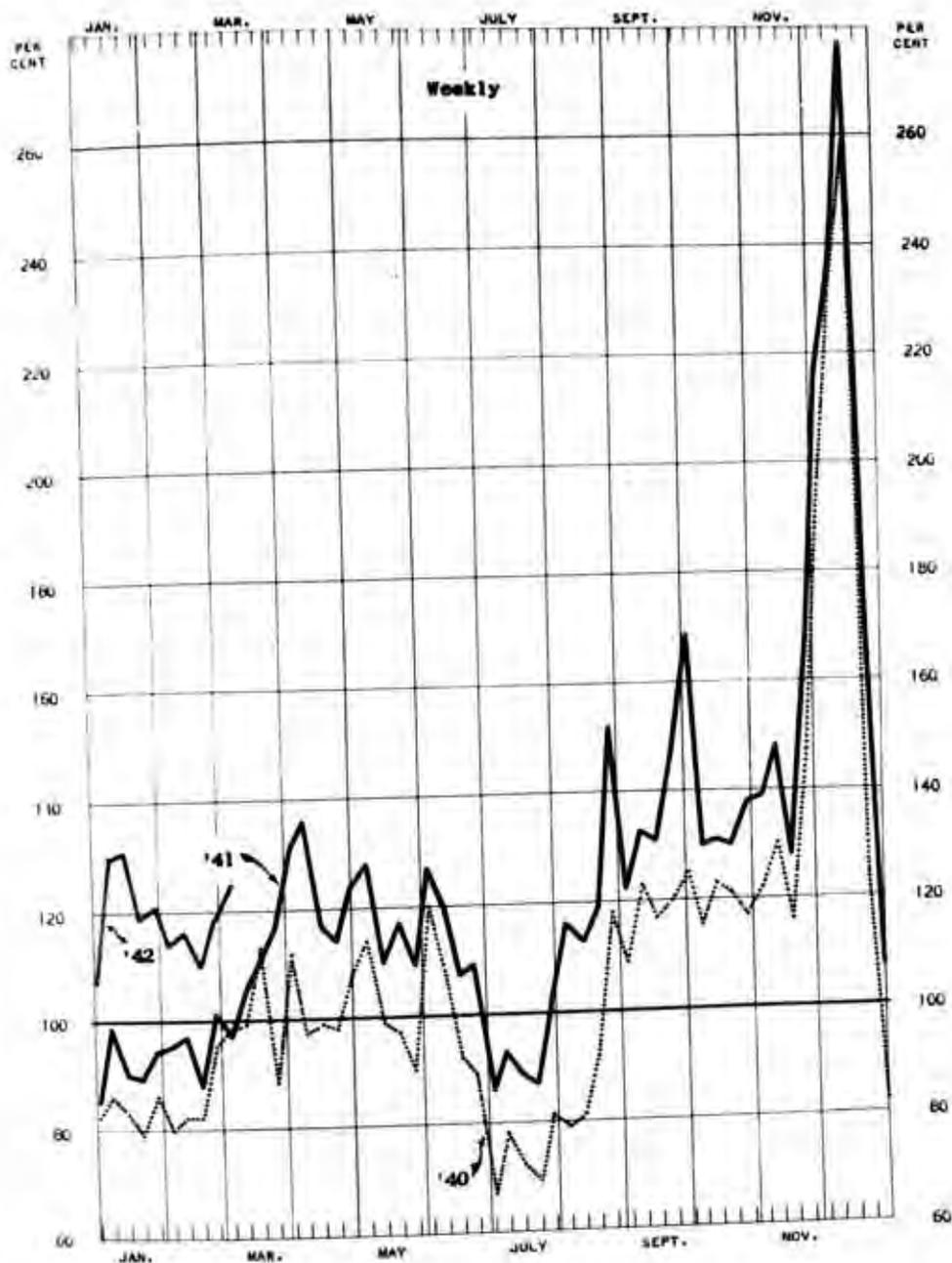
Adjusted for Seasonal



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

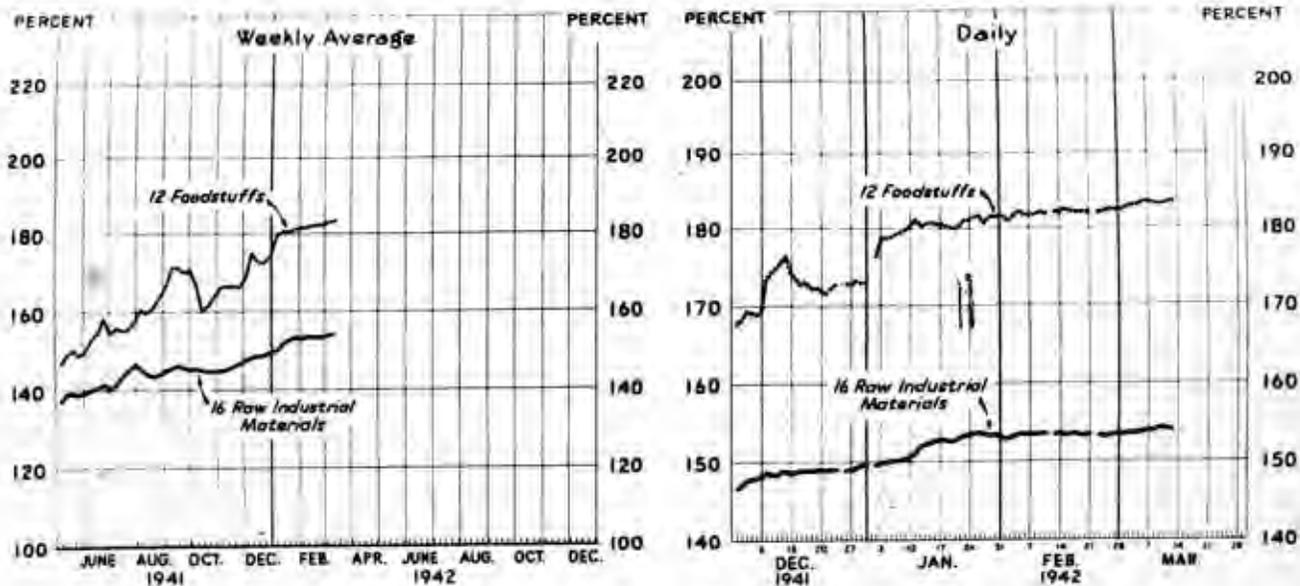
DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED

126



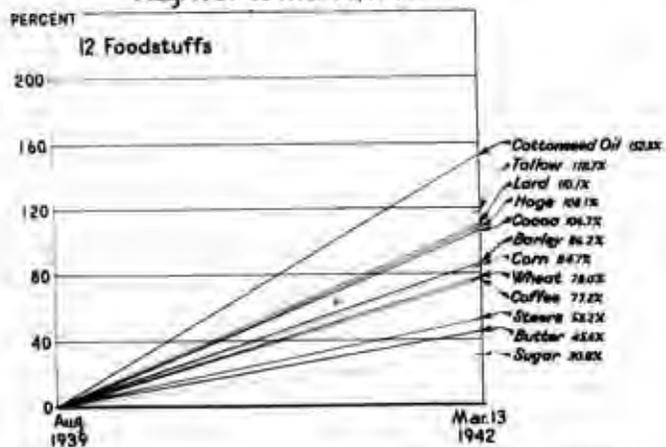
MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

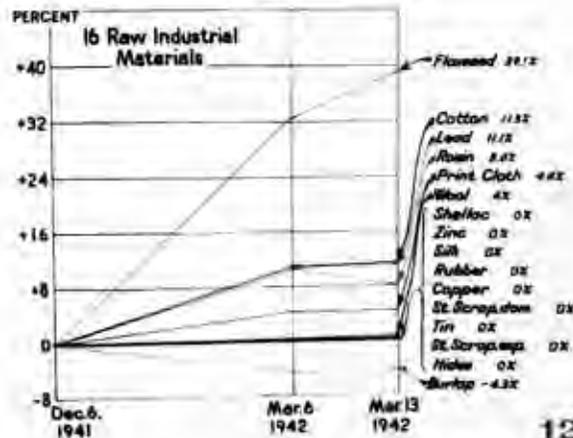
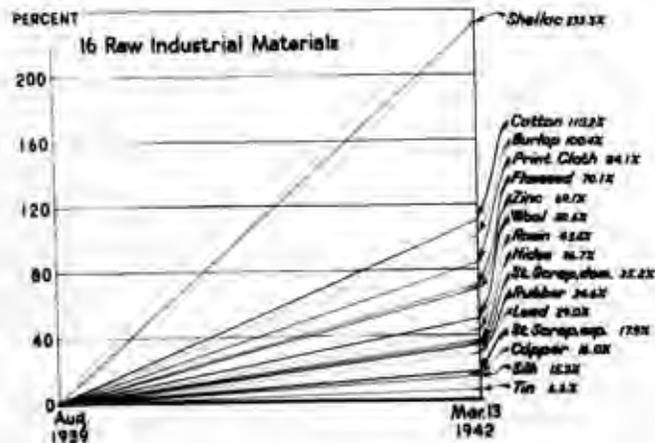
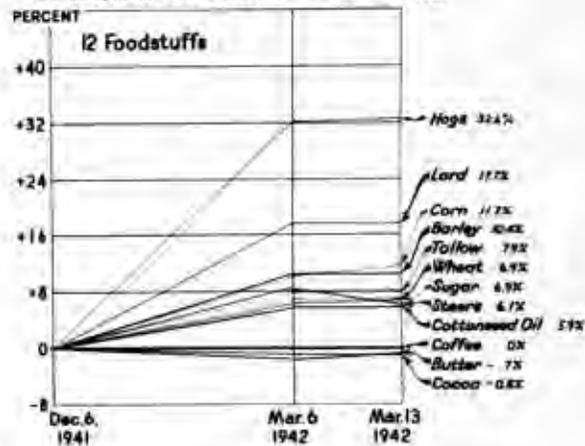


PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES

Aug. 1939 to Mar. 13, 1942

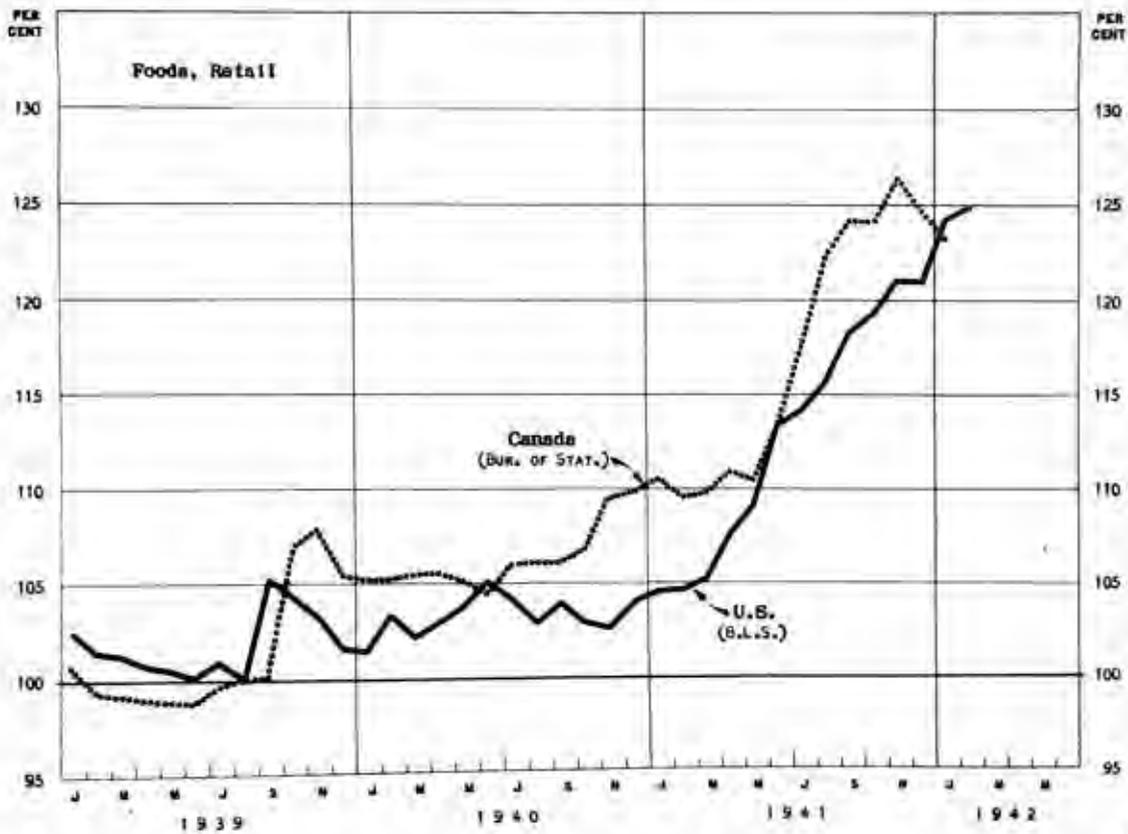
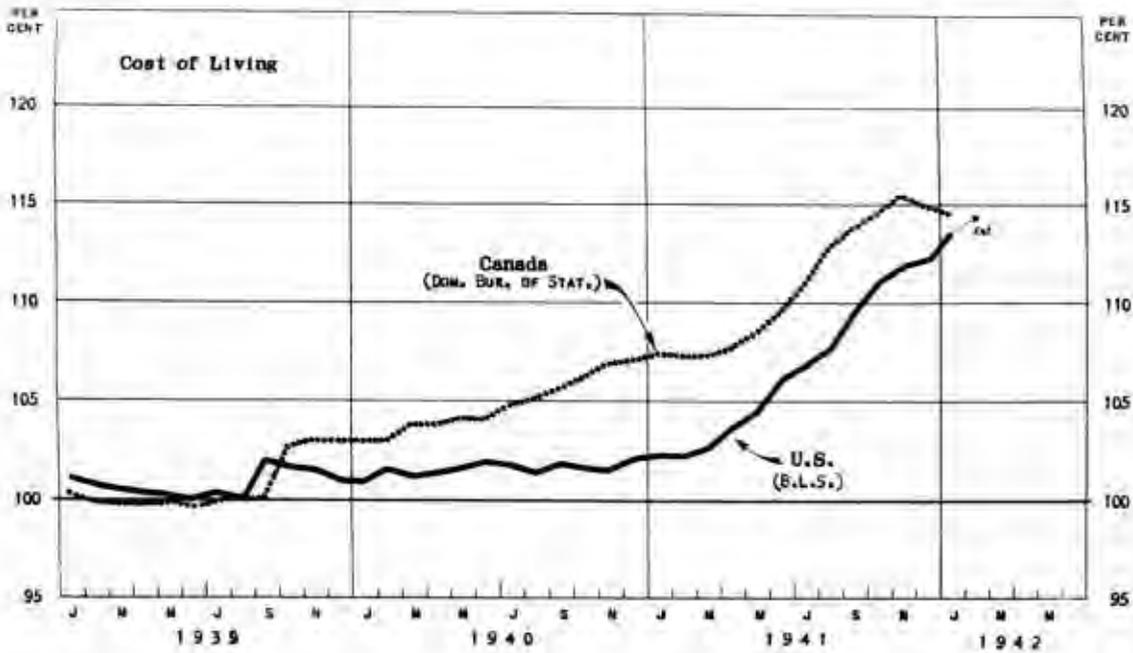


Dec. 6, 1941 to Mar. 6, and Mar. 13, 1942



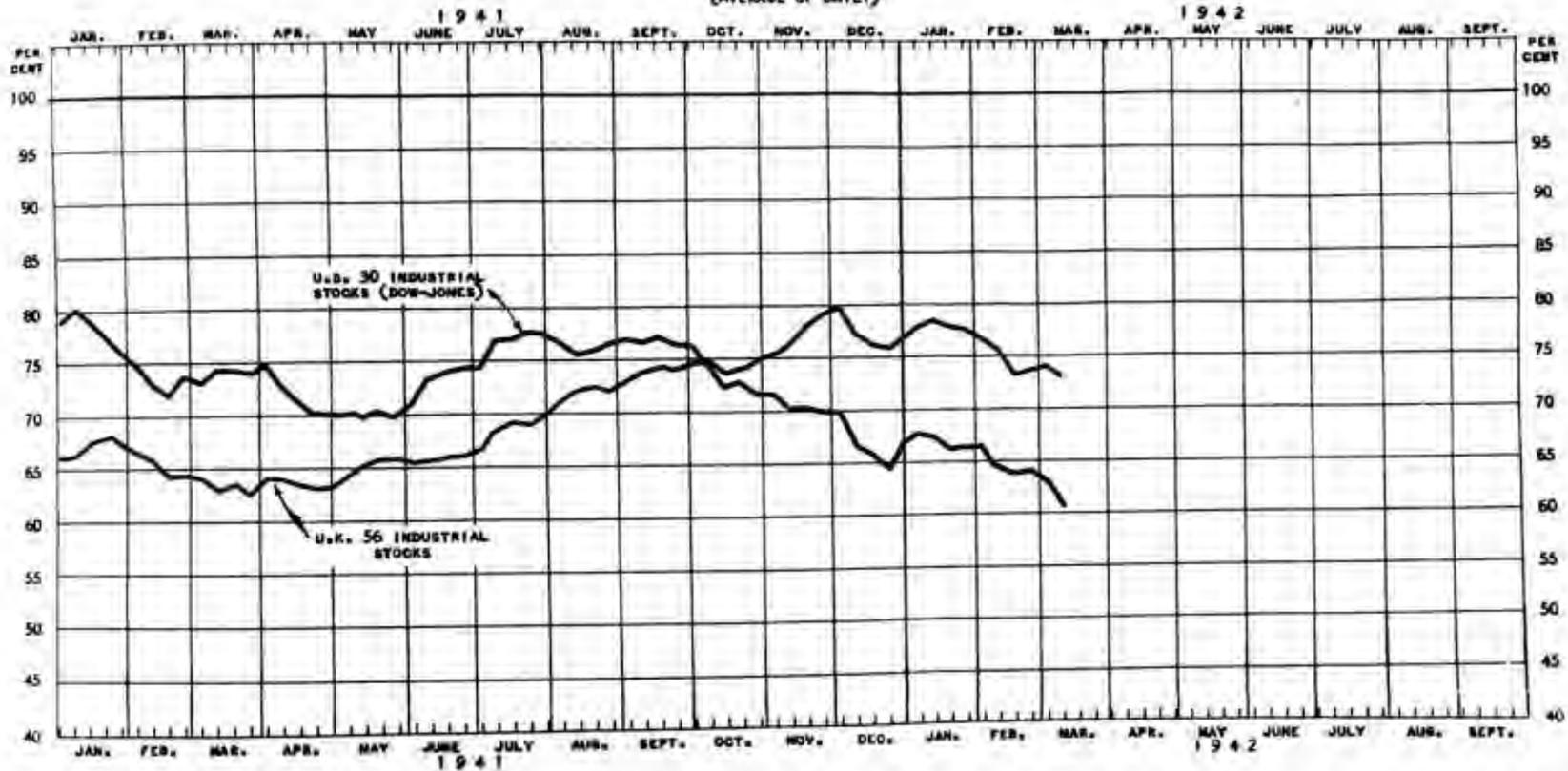
COST OF LIVING, U.S. AND CANADA

AUGUST 1939 = 100



INDUSTRIAL STOCK PRICES IN U.S. AND U.K.
AUGUST 1936 - 100

Weekly
(AVERAGE OF DAILY)



Tolan

WAR DEPARTMENT
WASHINGTON

MAR 16 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

I desire to acknowledge your letter of February 26, 1942, inclosing a copy of a telegram from Representative John H. Tolán, Chairman of the House Committee Investigating National Defense Migration, and a copy of your reply thereto.

Your attitude in this matter as indicated in your reply to Representative Tolán is carefully noted.

I appreciate the forwarding of this information by you.

Sincerely yours,



Secretary of War. ✓

DOES NOT BELONG TO THE SAG

Treasury Department **131**
Division of Monetary Research

Date March 20, 1942

To: Mr. Southard

From: Mr. Gass

Since this relates only to the supply of gasoline for the transfer of gold in North Africa, I don't think it need be brought to the Secretary's attention.

MR. WHITE
Branch 2058 - Room 214½

C
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YDEPARTMENT OF STATE
WASHINGTON

March 16, 1942

In reply refer to
FD 851.51/2943

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of strictly confidential despatch No. 1183, dated February 6, 1942, from the American Consulate General, Algiers, Algeria, concerning gold transfers to France from the Bank of Algeria.

Enclosure:

Departch No. 1183,
February 6, 1942,
From Consulate
General, Algiers.

Copy:lc:3/19/42

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133

No. 1183

AMERICAN CONSULATE GENERAL

Algiers, Algeria, February 6, 1942

STRICTLY CONFIDENTIAL

SUBJECT: Copy of confidential document from the files
of the Interior.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to enclose a copy of a confidential document from the confidential files of the Ministry of the Interior concerning gold transfers to France from the Bank of Algeria. The document is in French and a translation into English is also attached herewith. Vice Consuls Boyd and Knox secured this document from a very reliable source and felt it would be of interest to the Department.

Respectfully yours,

Felix Cole
American Consul General

JCN/jg

File No. 863.4

Enclosures: Confidential document from the files of the
Interior in French.
Translation into English of same.

Copies: Quintuplicate to the Department
1 copy to Vichy
1 copy to Tangier

Copy:lc:3/19/42

COPY

TRES URGENT

Vichy, Dec. 26, 1941

Ministry of the Interior
General Secretariat for the Administration
Under Direction for Algeria

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The Minister Secretary of State
for the Interior
To the Governor General of Algeria
Industrial Production:

Object: Transportation of gold from the Bank
of Algeria.

To insure the application of various commitments undertaken by the French government, the Bank of Algeria is under the obligation to carry out, for the account of the Ministry of National Economy and Finance, numerous transfers of gold from its vaults to the airport of Algiers. In this regard, the resources of the Bank in respect to industrial alcohol and gasoline may very possibly soon be exhausted.

In order to make proper response to the wishes expressed by my colleague of the Financial Ministry, I have the honor to ask you to give satisfaction in the briefest delay possible to any requests for liquid automotive fuel which will be presented by the Bank of Algeria for such gold transfers and to keep me closely informed of any difficulties which might occur in the carrying out of these instructions.

For the Minister
The Counselor of State
General Secretary for the Administration
Signed: Illegible

Reply made on the 10th of January stating that in the interval instructions have been given to comply to the Bank of Algeria's requests.

Signed: Etori
Secretary General of the Governor General
of Algiers.

Treasury Department
Division of Monetary Research

135

Date March 11, 1942 ¹⁹⁴² ~~1941~~

To: Secretary Morgenthau

From: Mr. White

- T:
- (1) The Colombian Central Bank has asked the Federal Reserve Bank if it could, in view of current transportation difficulties, hold in custody in that country the gold which it sells to the Federal.
 - (2) A similar request was made by the Chilean Central Bank in January and was denied. It appears likely that many other countries in Latin America would ask for this privilege if they thought it would be granted. Therefore the attached letter has been drafted to deny the Colombian request. //
 - (3) Should the transportation situation become more acute and inability to ship gold to the United States consequently embarrass Latin American countries, we could of course review the situation in the light of such developments.

MR. WHITE
Branch 2058 - Room 214½

MAR 16 1942

Dear Mr. Knoke:

Reference is made to your letter of March 6, 1942, enclosing a translation of a letter from the Banco de la Republica, Bogota, Colombia, dated February 21, 1942, which refers to difficulties with respect to transportation facilities and inquiring if gold hereafter sold to the Federal Reserve Bank of New York might be left in Colombia in the custody of a responsible enterprise until shipping conditions are more favorable. It is noted that you refer to your letter of January 6, 1942, in which you forwarded a similar request from the Banco Central de Chile, and that you suggest that you be authorized to reply to the Colombian Central Bank in terms similar to your reply to the Chilean Central Bank, as authorized in Mr. S. W. Bell's letter of January 16.

The Treasury Department has given careful consideration to the request of the Banco de la Republica, Bogota, Colombia, but in this instance, as in that of Chile, does not deem it advisable at this time to depart from its policy of not purchasing gold for delivery outside of the United States. You are therefore authorized, as fiscal agent of the United States, to inform the Banco de la Republica, Bogota, Colombia, accordingly.

Sincerely,

(Signed) S. Morgenthau, Jr.

Secretary of the Treasury.

Mr. L. S. Knoke,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

W. H. S.
File in Knoke
Please return to Secretary's office

FAN:esh
3/11/42

FEDERAL RESERVE BANK
OF NEW YORK

March 6, 1942

Attention Mr. Harry D. White

Dear Mr. Secretary:

With my letter of January 6, 1942, I forwarded translation of a letter dated December 20 from the Banco Central de Chile, Santiago, containing its suggestion, in substance, that, in view of the recent sharp increase in shipping charges we, as fiscal agent of the United States, in future purchase gold from it for delivery in Santiago instead of New York. In that letter I discussed the problem involved at considerable length and recommended that, unless reasons of national policy required compliance with the Chilean suggestion, we be authorized to inform the Banco Central that the Treasury Department did not see its way clear to comply with the suggestion made in the letter of December 20, 1941. The authority to inform the Banco Central accordingly was given to us by Mr. D. W. Bell's letter of January 16.

We now enclose translation of a letter dated February 21, 1942 from the Banco de la Republica, Bogota, Colombia, in which that bank requests that "in view of the extraordinary rise in the war risk rates during recent months", we consider hereafter leaving gold sold to us (as fiscal agent of the United States) by Banco de la Republica, in Colombia "in the custody of a responsible enterprise such as for instance the National City Bank of New York in order to have it shipped to the United States when conditions appear more favorable". The amount of gold involved might be substantial, considering that in 1941 Banco de la Republica sold us slightly in excess of \$24,000,000 worth of gold.

The request made by the Banco de la Republica is, of course, of the same character as that made by the Banco Central de Chile and should, therefore, it seems to us, be treated in the same way. We accordingly recommend that we be authorized to inform the Banco de la Republica that the Treasury Department does not deem it advisable to depart from its policy of not purchasing gold for delivery outside of the United States, unless, of course, reasons of national policy should require a different decision.

Yours very truly,


L. W. Knoke
Vice President.

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

FEDERAL RESERVE BANK
OF NEW YORK

TRANSLATION

FROM Banco de la Republica, Bogota
TO Federal Reserve Bank of New York, New York
REF. NO.

DATE February 21, 1945

Gentlemen:

Our Board of Directors has decided that in view of existing difficulties with respect to transportation facilities, we consult with you if it would be possible for this bank to leave gold which we may hereafter sell to you, in Colombia in the custody of a responsible enterprise such as for instance The National City Bank of New York in order to have it shipped to the United States when conditions appear more favorable.

If this suggestion is acceptable to you in principle, we should, on our part, provide all the facilities required in order to have the gold held in custody in perfect security, and we should come to an agreement about the terms on which freight and insurance for your shipment to New York would have to be paid at the time that may appear desirable.

We trust that you will give particular attention to this request primarily in view of the extraordinary rise in the war risk rates during recent months.

Yours very truly,

BANCO DE LA REPUBLICA

(signed) Julio Caro

Manager.

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YDEPARTMENT OF STATE
WASHINGTON

March 16, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith for consideration and appropriate action the enclosed Agenda Sheet and the material attached thereto.

The Secretary of State would appreciate being advised of the disposition which is made of the problem raised by these enclosures.

Enclosure:

Agenda Sheet and
material attached thereto.

Copy:lc:3/16/42

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DEPARTMENT OF STATE

FOREIGN FUNDS CONTROL DIVISION

AGENDADOCUMENT SUMMARY:P. R. A.
SERIAL NO. 3-2-1

- (1) DESCRIPTION: (a) Copy of telegram no. 156, dated February 27, 1942, from the American Legation, Helsinki.
(b) Paraphrased copies of telegrams nos. 93, 110, 131, from the American Legation, Helsinki.
- (2) CONCERNING:
Application for a Treasury license to permit the payment of \$14,500 from Finnish funds in the United States in the settlement of debts owing to the Paramount Films Company from its Finnish Agency.
- (3) APPLICATION NO.:
Unknown.
- (4) PRESENT STATUS:
- (5) ACTION TAKEN:
- (6) RECOMMENDATION:
The Department of State recommends favorable consideration in order that American Films may continue to be sent to Finland.

Copy Attached YesState Department File No. 860D.4961 Motion Pictures/23, 17, 15
and 20.

Copy:lc:3/16/42

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

Helsinki

Dated February 27, 1942

Rec'd 3:52 p.m.

Secretary of State,
Washington.

156, February 27, 2 p.m.

My number 131, February 18.

A distributor of Paramount films today informed Secretary of Legation that he had learned that our Treasury Department had refused an application for a license to permit the payment of \$14,500 from Finnish funds in the United States in settlement of debts owing the Paramount Company from its Finnish Agency. He said the matter was of great importance in relation to the future importation of Paramount films for which he had a order for eighteen feature pictures as the Paramount Company would be reluctant to permit pictures to be shown here if no arrangements for payment could be made.

I venture to repeat the inquiry in my telegram number 110 of February 11 as to the possibility of unfreezing Finnish dollar balances for the express purpose of paying for American motion picture films in Finland.

Repeated to Stockholm.

SCHOENFELD

LMS

Copy:lc:3/16/42

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Legation, Helsinki DATE: February 4, 2 p.m.
TO: Secretary of State NO.: 93
REFERENCE: Stockholm's 174, January 31, to Department.

The Legation's Secretary was visited this morning by a delegation which represented the distributors of motion picture films of American origin. They called to consider what action should be taken in response to the German film chamber's demand that from next July 1 there should be neither importation nor even showing (repeat even showing) of American pictures in Finland.

Board of Directors of Finnish Film Chamber of Commerce apparently confronted motion picture distributors in this country with a fait accompli according to the report of this delegation. The large Finnish film producing companies, Adams Film and Suomi Film, apparently have a dominant voice in the Board. Latter accepted demand by Germans without consulting other members of Chamber. Their motive was apparently the fact that both companies use large quantities of raw film and act in the distribution of European, including German, films.

The Government undoubtedly knew what was taking place but very cleverly kept away from the whole matter, being aware that today is the day that negotiations start with Germany for a new trade agreement. As a matter of fact, the head of the commercial section of the Foreign Office, Falaanti, and the

chief of the foreign exchange section of the Bank of Finland, Sundman, calmly stated to the distributors of American films that the present system of importing 75 pictures a year was entirely satisfactory to them.

An attempt is now being made by the distributors of American films to gather support from all distributors in this country of American films to run counter to the decision taken by the Finnish Film Chamber of Commerce's Board of Directors. They point out, however, that their situation is very difficult since the Board of Directors has an irrefutable answer in pointing out to small distributors that they will be better off without American films than without films of any kind.

Americans felt that position would be improved if assurances could be given that American or British raw films could be exported to Finland by borrowing from Swedish stocks. Main argument of Adams and Suomi Films would be overcome if enough raw film could be imported from July 1, 1942 to June 30, 1943, the normal film year, to manufacture fifteen full length features. 250,000 finnm_{ar}ks will finance the purchase of enough film for the master film and all copies of a feature picture. Feature films here are estimated in terms of cost and not in terms of length.

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The delegation was informed by the Secretary of Legation that Swedish producers had already assumed an independent attitude before German demands of a similar nature and that both the American and British Legations at Stockholm had shown a helpful attitude with regard to helping such producers to obtain a supply of raw film. He stated, however, that as far as Finland was concerned, the British Government had already stated that Sweden could not allow Finland to receive supplies imported by Sweden, these supplies to be replaced by navicort imports. The British Government itself would have to allow the exception so far as raw film was concerned. Therefore, question should be settled by American and British Governments in collaboration. Undoubtedly advantage derived from a continued showing in Finland of American motion pictures would be realized in London as well as in Washington. He promised that the Legation would enlist the Department's help in this matter and agreed that American distributors were right in thinking that for the time being the best procedure was one of delay in order to explore all possibilities of obtaining raw film from America, meanwhile delaying any definitive answer to German ultimatum. Notwithstanding fact that Board of Finnish Film Chamber had accepted German demand, such action has been disapproved by practically all theatre owners and they are holding a meeting on February 7 to reconsider the position of the chamber in a full session.

Copy:lp:bj:3-16-42

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: Helsinki

DATE: February 11, 5 p.m.

NO.: 110.

REFERENCE: Legation's telegram
no. 93, February 4.

CONFIDENTIAL

Representatives of the American motion picture companies in this country met this date with the Secretary of Legation. These distributors have won quite a victory in the Finnish Film Chamber of Commerce since last meeting with the Secretary of the Legation. As a result of the public session of February 7, the Board of Directors of the Chamber was forced to resign and its action in acquiescing in the German demand was repudiated. The question of accepting the German ultimatum was made one of confidence by the ex-chairman of the board but he lost out, the vote being 95 to 103. He represented Adams Filmi. It may be realized how much the German proposal was resented and how strong the opposition to the Board was when one considers that Adams and Suomi Filmi together through their ownership of theaters had 23 votes at their disposal.

It is interesting to note that Suomi and Adams Filmi, who are important Finnish producers, are not included in the membership of the new Board of Directors. Two of the five members represent Helsinki distributors while the

- 2 -

remaining three represent provincial theatre owners. Weckman, representative in this country for MGM, who is the Vice Chairman of the new board, was present with McClintock at the meeting which took place today.

The new Board of Directors are, of course, very much encouraged by their recent success, but the Board, which has the backing of the American distributors is more than ever desirous of being assured that (1) the British and American Governments can facilitate the export to Finland of raw film and (2) that finished pictures will continue to be sent to Finland by motion picture companies in the United States. There is not much financial reward for American companies which send films to Finland inasmuch as the Bank of Finland only allows 75 American features every year and a \$200 remittance per film. American distributors, however, have been informed by the Bank that it is prepared to release all frozen funds due American film companies in this country up to April 19, 1941 and maybe even after that date. Of course, in order that the Bank of Finland may be able to do this, dollar balances must be available. For this purpose the Treasury Department would have to issue licenses. According to American distributors no regular procedure with regard to the granting of such licenses has been established so far. As late as last November checks of the Bank of Finland were cashed in the United States by MGM. On the other hand, last May the representative of

- 3 -

Werner Brothers had similar checks returned to him. We believe that the Treasury Department should allow these accounts to be liquidated, and with that in view, Bank of Finland checks should be honored, especially as they represent payments for debts which in most cases were contracted before the war and which are due to American companies. Such action would encourage American motion picture producers to send additional films to this country.

Raw films can only be imported with the acquiescence of the British Government and the estimate of 15 feature pictures for every year is confirmed. On the basis of 10 prints for each feature film it is necessary to obtain the following lengths of film.

10,000 meters for the picture negative;

15,000 meters for the sound negative;

42,000 meters for the positive film.

In order to estimate the total amount needed in this country, the foregoing figures should be multiplied by 15. According to our informants, it is believed that no more than 10 full length feature films can be produced every year in war time. However, the shorts would require footage equal to that required for five feature films.

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- 4 -

The British Legation's Commercial Secretary in Stockholm according to our Legation there will refer the question of raw-film importation to Economic Warfare Ministry in London. It is just as important, however, that we assure Finnish distributors that such distributors may count on finished American feature pictures as well as raw film. Small theater owners who largely make up membership of Finnish Film Chamber of Commerce are naturally more interested in distribution problem than production problem. Germans, in their demand to Chamber, insist on lumping together both problems, which naturally is most advantageous to them. Essential matter be settled quickly if victory won so far is not to be lost before new demand is made by Germany.

SCHOENFELD

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3/16/42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMLEGATION, Helsinki
TO : Secretary of State, Washington
DATED: February 18, 1942
NUMBER: 151

Reference is made to telegrams 93 and 110, February 4 and 11 from the Legation.

The question of the demand by Germany that Finland deny itself American Films subsequent to July 1, was discussed informally yesterday by the Legation's Secretary with the Chief of the Commercial Section at the Foreign Office. It was stated by Jalanti that the importation of American motion pictures on the quota basis as during the past year was agreeable to his section and speaking as a member of the Import License Board he stated import licenses would be granted. The question of providing sufficient foreign exchange to pay for raw film imports would be a difficult matter he stated; but the suggestion by McClintock that it may be possible to use Finnish dollar balances in the U. S. for that purpose was agreed to.

It was frankly stated by Jalanti, however, that further imports of American motion pictures is a political question and that he was of the opinion that attempts to suppress American films in Finland would succeed. In addition to Finland and Sweden, he said incidentally, that similar demands had been made in Portugal, Switzerland and Hungary.

Copy:bj:3-16-42

WM

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

Wellington

Dated March 16, 1942

Rec'd 11:30 p.m.

Secretary of State,
Washington.

32, March 16, 9 a.m.

Please communicate the following to Treasury as High Commissioner Sayre's telegram No. 29, February 22.

"Committee described my 9, January 17 except Nieto absent destroyed contents three boxes referred to in my 3, January 10. Contents at time of burning comprised United States dollars 202,441 and P 61,488 latter constituting pesos accepted in exchange for dollars. Balance of United States dollars 146,000 represented by United States Treasury checks, \$10,000 reported my 16 February 6 and \$100,000 and \$36,000 reported my 28, February 22. Sayre."

COX

NK

CABLEGRAM

From: Basle
To: Federal Reserve Bank
of New York
Date: March 16, 1942

#18 ATTENTION KNOKE

Please obtain license to buy from U.S. Treasury gold bars containing approximately 38,500 fine ounces to be held earmarked for our own account #2 debiting our account B with countervalue.

sgd. Bank for International Settlements

Rec'd by telephone from Federal Reserve Bank of New York, March 17/42,
11:30

kma

PARAPHRASE OF TELEGRAM SENT

TO: AMLEGATION, Bern
DATED: March 16, 1942, 7 p.m.
NUMBER: 687

The Swiss-Spanish transfers were discussed on March 12 by Assistant Secretary Acheson and Mr. Gautier, the representative in the United States of the Swiss National Bank. It was stated that the Government of the United States would license the transfer of \$2,200,000 to the account of the Instituto Espanol de Moneda Extranjera from the Swiss National Bank. Consequently, on March 13 the licenses necessary to permit the transfer of this amount were issued by the Treasury Department. Mr. Gautier indicated that the Government of Switzerland would agree to make available to either the United States Government or to such persons as it should direct, the Swiss franc equivalent of \$2,200,000, as against the payment of \$2,200,000 into the blocked account in this country of the Swiss National Bank. Because of the fact that Mr. Gautier's instructions from his bank did not refer to the proposal that the bank should purchase \$1,000,000 from the British for Swiss francs, the figure was set at \$2,200,000 rather than \$3,200,000 previously mentioned in the Department's no. 606. It was pointed out to Mr. Gautier that upon his assurance that the Swiss Government would make available the Swiss franc

franc equivalent of \$1,000,000 to the British, this Government would be prepared to approve the transfer of the additional \$1,000,000. It was stated by Mr. Gautier that he would inform Mr. Acheson later as to what assurances could be given as to the additional \$1,000,000, since Mr. Gautier preferred to confirm by cabling his bank.

It was indicated by Mr. Gautier that his bank could not accept as a principle that further transfers could not be made from the Swiss account to the blocked accounts of other neutral banks solely for Swiss purposes. It was pointed out to Mr. Gautier that this Government merely indicated that its policy would be not to permit such transfers in the future and that it had not attempted to compel the Swiss Government to acquiesce in this principle. Mr. Gautier was told that the transfer of \$2,200,000, with the possibility of raising it to \$3,200,000, was simply an attempt to settle the difficult financial questions which had arisen between the Swiss Government and the United States Government by warning the Swiss of the future attitude of this Government and by attempting to meet the present Swiss embarrassments as soon as possible. This Government was therefore urging the Swiss Government to make future payments in some other manner in order that there might be a practical demonstration of the correctness or incorrectness of the several predictions made by the

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the Swiss as to the effect of refusing further transfers of this nature. This explanation seemed to satisfy Mr. Gautier. This Government has authorized the transfer of \$240,000 from Greek Government funds in this country as part of the \$2,200,000 which the Swiss Government has agreed to transfer, of which the equivalent in Swiss francs is to be made available to the Minister of Greece in Bern to buy foodstuffs and medical supplies for distribution by the International Red Cross in Greece through private channels and which is not to be entered into the accounts of the Legation. The additional telegraphic transfer of \$650,000 to supplement the \$350,000 mentioned in the Department's no. 139 of January 17 will soon be initiated. In the future other transfers will be made. It is suggested that you offer no official drafts for sale, in order to prevent confusion from arising as to the amount of dollars which the Swiss National Bank is required to accept, but as an alternative cash from Swiss francs such drafts as authorized under the procedure presented in telegram no. 307 of February 3, 1942 to the Legation.

TREASURY DEPARTMENT

155

INTER-OFFICE COMMUNICATION

DATE March 16, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£44,000
Purchased from commercial concerns	£ 5,000

Open market sterling remained at 4.03-3/4, with no reported transactions.

In an unusually active market, the Canadian dollar discount widened further to 12-1/4% by the close, as compared with 12% on Saturday. The banks' estimates for today's turnover generally exceeded 500,000 Canadian dollars, as compared with the usual daily figure of about 100,000 Canadian dollars during the past few months. Most of today's offerings were believed to have represented the proceeds received by American holders of Canadian Pacific Railway bonds falling due today. Active support was given to the rate by the presence of the Post Office as a buyer of about 500,000 Canadian dollars. However, the banks believe that the Post Office has now satisfied most or all of its requirements and that the discount will widen further in the next few days, especially since substantial amounts of Canadian dollar redemption proceeds remain to be sold.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	+2365
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2825
Cuban peso	7/32 ³ premium

We sold \$24,938,000 in gold to the Bank of Sweden and this was earmarked in the Bank of Sweden account that is subject to the instructions of Messrs. Bostrom and Eriksson. We also sold \$19,949,000 in gold to the Swiss National Bank, which was earmarked for its account.

In order to partly cover the above sales of gold, we purchased \$25,936,000 in gold from the General Fund through the New York Assay Office.

-2-

The Federal Reserve Bank of New York reported that the Bank of Canada was shipping \$3,370,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

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¢. Hedy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.



CONFIDENTIAL

BRITISH MOST SECRET

(U.S. SECRET)

OPTSI No. 3d

Information received up to 7 A.M., 16th March, 1942.

1. NAVAL

A naval mine-sweeping whaler shot down a Ju 88 off MURMANSK on 13th. 15th. At 6.25 a.m. two motor gun-boats attacked an E-boat off the Dutch coast, at 7 a.m. the E-boat surrendered, was boarded and taken in tow 10 prisoners being captured. At 9.30 a.m. 4 more E-boats appeared from Eastward, the tow was slipped and the prize is believed to have sunk. In the ensuing action one E-boat was severely damaged but contact was lost in fog at about 10 a.m. Our motor gun-boats sustained considerable above water damage and 6 casualties. Subsequently Spitfires attacked 3 E-boats escorting a fourth which was damaged, one of these was left burning and the others were badly damaged.

2. MILITARY

LIBYA. 14th. Increased enemy activity south-west of TMDI, 12 miles south-east of MEKILI a Free French column met 14 Italian tanks which were engaged and withdrew.

BURMA. SHWEGYIN area - no change in forward position. PROME Road sector - all quiet.

3. AIR OPERATIONS

WESTERN FRONT. 15th. 5 Squadrons of Spitfires on returning from an unsuccessful operation against shipping off the coast of BRITTANY met with bad weather over this country, 14 crashed or forced landed, two pilots being killed.

LIBYA. 13th/14th. Wellingtons laid mines in BENGHAZI HARBOUR and bombed the quays, other Wellingtons attacked a concentration of M.T. near MEKILI.

14th. Bostons, escorted by Kittyhawks, bombed MARTUBA landing ground, the Kittyhawks, two of which were lost, shot down three enemy fighters and probably destroyed two others.

MALTA. 15th. 102 aircraft attacked the submarine base and LUQA aerodrome. A number of service and civilian casualties were caused and much damage done to civilian property.



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

158

March 16, 1942

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

Dear Henry:

Enclosed is a summary of the
British Home Intelligence Report for the
week ending March 9.

Sincerely,

Bill
William J. Donovan

Attachment

The following is a summary of the British Home Intelligence Report for the week ending March 9.

Public opinion is calmer and less critical in some respects than last week. However, coupled with this are suggestions that the majority have settled down to a state of war weariness, apathy and frustration. "The mood of the people is more depressed than it has been since the war began." The general trends are a willingness to accept heavier burdens and sacrifices, a demand for strong leadership, and demands for more drastic punishment of "moral saboteurs" including not only black marketeers and slackers but all who do not pull their weight.

2. The high spot of the week was the raid on the Renault plant. However it was received with restraint. There were no caps in the air. Instead "its about time, too." The speech of Air Minister Sinclair promising renewed and heavier attacks was welcomed generally and likewise Sir James Grigg's proposal to comb out ineffective army officers. "It is now accepted as clear that Capt. "argesson acted as a brake." However, people ask, "Why stop at the Lieutenant Colonels, why not begin with the higher ranks?"

3. Regarding the Far East there was little comment but general depression.

4. Regarding the Empire. In two out of the thirteen regions the possibility of Australia's leaving the Empire after the war was freely discussed. It was felt "she has no confidence in us and is leaning more and more on the United States." The widespread anxiety about India continues. British relations there are considered critical. Immediate Dominion status is urged. The attitude of the government is causing a growth of impatience. "It is thought that we lost Malaya through lack of sympathetic help by the natives and that we are making little attempt to enlist the whole hearted cooperation of the Indians."

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5. All interest in the Libyan campaign has been lost except for wondering when Rommel is going to spring and why "we can't get one in first."

6. Regarding Russia there are the same "humiliating comparisons" as previously and the same gratitude and admiration. It is reported from several regions that "Stalin is still the most applauded figure on cinema screens."

7. The government's plan to curtail sports events was approved generally.

8. Special "disquieting" reports concerned several questions regarding the war. These are introduced by the statement that there is no doubt that a large proportion of the civilian population is still actively and whole heartedly forwarding the war effort, but a number of people have been encountered since mid January whose mood suggests a slackening of effort and a feeling of a lack of purpose among all classes. Point A: What are we fighting for: "The public has no clear cut conception of the purpose of the war. The Russians have a definite purpose. They have a way of living that they believe is worth fighting for and which enables them to fight well. The Germans are thought to have a purpose. We have only vague conceptions, fluctuating between ideas of right and wrong and ideas of holding what we've got." Point B: How can we win the war? "There is less conviction of our ability to win and a growing tendency to think that unless we deserve to we shall not win." Point C: "Let Hitler come. There is a feeling among submerged social groups that "when he does get here he can't do anything so very bad." Point D: "The admiration for Russia gives rise to a sympathy and interest in her institutions and ideals, drawn more from the conviction of our own inefficiency than from any liking of communism.

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9. Regarding news presentation. Disgust and apathy this week. The war news is less listened to and less read. There is still a "glossing over bad news" by BBC.

10. Regarding industry. There is disillusion at the lack of a sense of urgency and dissatisfaction with production. The public blames the managements for bad organization, overstaffing because of "cost plus system," window dressing, not taking workers into their confidence, running up costs on Sunday work and overtime and looking after their own present and postwar interests first. However, on the other hand a proportion of the workers are blamed because "they do not seem to be pulling their weight because: "get as much as you can for doing as little as you can."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 16, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Summary of Military Reports

Germany

Germany is making an intensified drive to meet its labor shortage. Demands have been made on Belgium and France to provide between them 600,000 additional workers for Germany. The Germans have released 200,000 boys from school before the end of their school year for work in armament factories.

(U.K. Operations Report, March 12, 1942)

Japanese Air Losses

It is estimated that the Japanese have lost approximately 1,800 planes, half of these in combat and half in other operations, such as accidents and forced landings. The Japanese are believed to have a total air strength of some 5,000 planes, with a production of around 300 combat planes a month. Therefore, at this rate of expenditure, the Japanese air fleet would disappear in about sixteen months.

(C.C.I., "The War This Week," March 5-12, 1942)

Japanese Shipping Situation

Like the weak Japanese air power, the shipping available to the Japanese may prove to be a limiting factor on Japanese offensive plans. According to the C.C.I. calculations on the use of Japanese shipping, the Japanese do not have more than a million and a half tons of shipping available for a possible Australian campaign. This would limit the size of the expeditionary force to

300,000 men and risk the entire marginal merchant tonnage owned by Japan over and above the rock bottom minimum needed to sustain her life. (These calculations appear to be fairly reasonable. All of the operations carried out in the South Seas by Japan to date have used at most only a few hundred thousand men.)

(C.O.I., "The War This Week," March 5 - 12, 1942)

Royal Air Force

During the night of March 8/9, the Royal Air Force used 62 heavy bombers in bombing Germany.

(U.K. Operations Report, March 9, 1942)

(This is the largest number of heavy bombers used to date. It probably indicates that the British possess, in squadrons and in reserve, a total of about 200 heavy bombers. This does not include the Coastal Command to which most of the American heavy bombers were sent.)

It is now revealed by Lord Trenchard, Marshal of the R.A.F., that the British concentrated in 1941 on building up the Coastal Command at the expense of the Bomber Command. In view of the importance of shipping, it is difficult to quarrel with this decision. It does explain why there has not been that increased intensity of bombing attack on Germany that otherwise might have been expected.)

VOICE OF THE CHIEF

"With all their power, Messrs. Mundt and Schmidt, the tools of the Nazi Party Commune in the High Army Command have been working for disciplinary action against Major General Toussaint, military commander in the Protectorate (Schemia and Moravia). They aim to have him relieved from his post and sent to Copenhagen as military attache."

Major Toussaint had been ordered to write a memorandum explaining why arms production at Prague had declined by 11 percent as against the same month last year.

"Major Toussaint did not try to ingratiate himself with his superiors. Instead, he made it clear that the main reason for the declining output of the Czechs since Heydrich's (Protector of the Protectorate, Gestapo official) ascension, lies in the throttling of every healthy reason for industry and life among the population through the despotism and the brutality of the administration."

According to Toussaint's report, the Czechs, "normally an active and industrious people, have sunk into complete apathy due to the Heydrich system. Their two main grievances are: (1) There is no redress against the despotic acts of the S.S. and (2) The Population is allowed to keep only the smallest amount of money at their homes. Thus, a man cannot have the feeling that he is working for himself and his family."

Toussaint's memorandum cites the case of a Polish criminal who, in the uniform of a Gestapo official, broke into houses and robbed people: "The worst of it is that everyone looked at the method of this Polish thief as the normal procedure of the Gestapo."

"Thus went the report of Major General Toussaint, an outstanding German officer who, to be sure, is no friend of the Poles and Czechs and Slovaks, but who has experience in the handling of subjugated populations."

(Foreign Broadcast Monitoring Service; Federal Communications Commission, March 13, 1942.)

OF POSSIBLE INTEREST

Japanese Fifth Column

(The assertion that the Japanese have imitated the Germans in organizing Fifth Columns is unwarranted. The following is a description written in 1904 of the Japanese advance into Korea during the Russo-Japanese war.)

"...Long ago they (the Japanese) started Korean language classes in Tokyo for picked soldiers. While some of the best Japanese officers were making their way through Manchuria and Mongolia others went all over northern Korea. Men living as Koreans, speaking the language like natives, regarded even by the natives as people of their own race, were in every district. The Japanese knew not only every road and trail, but apparently every person. Thus, when fighting came, they knew the land, while the Russians living in its borders, did not. Every Japanese officer has his map of the part of the country he is working in. The Russians, apparently, have had to make their maps as they go....

"The first great movement northwards was not of troops, but of transport. A few soldiers were forced up to save Pingyang from the Russians, but the remainder waited until there were supplies ready for them. In every town between Seoul and Ping-yang, Japanese dressed as coolies, but armed with rifles, appeared on the streets. One man in plain uniform takes possession of a temple or a palace, and gigantic stocks of food and clothing arise, as it were, from the earth. Here is a mountain of red blankets, there an avalanche of coolie loads of rice. Here come men from fifty miles away driving cattle; while the advance guard of Japanese troops is still miles away in the rear. You enter a village, knowing that it is at least two days before the first soldiers pushing on from Seoul can reach there. At the entrance to the village you will probably find a newly-erected notice-board with a large map showing every house and road around, and with minute directions below for the billeting of the troops...."

(London Daily Mail news account given in "From the Yalu to Port Arthur," by Colonel O. E. Wood, Tokyo, 1905.)

RESTRICTED

MID 319.1
Situation
8-11-41

No. 660 M.I.D., W.D. 11:00 A.M., March 16, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: Nothing to report. Burma: Allied aircraft attacked several groups of Japanese troops in Lower Burma. Small mobile units on both sides are active. The British report the recapture of Shwegyln. Australasia: Air action in the New Guinea area continues. Japanese aircraft attacked Port Moresby and Thursday Island, in the Torres Strait, on March 15.

II. Western Theater.

Nothing to report.

III. Eastern Theater.

There is no reported change in the general situation. (A situation map will not be issued this date.)

IV. Middle Eastern Theater.

British air and naval forces bombed and shelled the Italian Island of Rhodes on March 15. Aircraft of the R.A.F. bombed Tripoli on March 15.

RESTRICTED

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, March 17, 1942.
3/16/42

Press Service
No. 30-78

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 18 and to mature June 17, 1942, which were offered on March 13, were opened at the Federal Reserve Banks on March 16.

The details of this issue are as follows:

Total applied for - \$535,476,000
Total accepted - 150,273,000

Range of accepted bids: (Excepting two tenders totaling \$90,000)

High	- 99.975	Equivalent rate	approximately	0.099	percent
Low	- 99.947	"	"	0.210	"
Average					
Price	- 99.951	"	"	0.195	"

(99 percent of the amount bid for at the low price was accepted)

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 17, 1942.

TO Harold Graves
FROM Secretary Morgenthau

The President of the United States called me up at 10 o'clock Monday night to tell me how pleased he was with the Treasury program. Do you suppose that you could find out what special features there were on the Program that drew his attention? I'd like to have an answer on that before noon on Tuesday. Be sure and get me an answer by noon Tuesday.

(Mr. Kuhn had the program and showed it to the Secretary at 9:30 meeting this morning.)

March 17, 1942
9:30 a.m.

GROUP MEETING

Present: Mr. Bell
Mr. Viner
Mr. Thompson
Mr. Buffington
Mr. Paul
Mr. Blough
Mr. Graves
Mr. Sullivan
Mr. Kuhn
Mr. White
Mrs. Klotz
Mr. Foley
Mr. Haas

H.M.JR: What are you doing here, Kuhn?

MR. KUHN: Oh, I am all right. I just had a good cold.

H.M.JR: I have got a good joke on Kuhn and most likely the rest of the office. At one minute past ten the White House phone rang. It was the President of the United States. He said, "Henry, that was the best program I have ever heard. That was a wonderful program the Treasury just put on." I said, "Yes, Mr. President. Yes, Mr. President. Which one of the programs?" He said, "You know, the one from nine-thirty to ten. That is what a program should be." I said, "Well, what is it called?" "Oh, America something." He said, "Now why can't everybody put on programs like that?" I said

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"Yes, Mr. President. Thank you so much, Mr. President." He said, "Harry and I think it was wonderful. It was good for Harry and good for me."

So I hung up and called up Kuhn and said, "Ferdie, what was the program?" "What program?" I called on Callahan and Callahan wasn't home, and I don't know yet what the program was.

MR. KUHN: I have it here. It is just the ordinary Monday night one, but they chose some very swell songs that everybody knows and likes, and they had some commercials in there that they think pleased him, one about labor unions and one about everybody sharing and so forth.

H.M.JR: Is it in there?

MR. KUHN: Yes, this is the script.

H.M.JR: The Treasury Hour has a great following. Who here last night heard it?

MRS. KLOTZ: We don't listen to it any more. (Laughter)

MR. BELL: I tried to get the Treasury program. It was on WINX at eight forty-five, I thought. Is that the Treasury Parade or something?

MR. KUHN: Treasury Staff Parade.

MR. WHITE: You see everybody here is already sold on the idea. They don't have to be propagandized.

MRS. KLOTZ: Oh, did you hear what Mr. Paul said? He said, "We don't get home in time to hear it."

MR. BELL: That was good.

H.M.JR: Well, I can't help it if you go out to dinner.

Now, there is something disagreeable. I spent last night, part of it anyway, reading this blankety blank report on this man Hinckley.

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Now, all of this could have been avoided if we never had hired Mr. Hinckley, and Helen Dallas knew that this man was for two or three years President of the Youth Congress.

MR. GRAVES: I don't think she did.

H.M.JR: That is incorrect, Harold, she did. She recommended him to OCD and OCD turned him down. Mrs. Morgenthau turned to Mrs. Roosevelt and asked about it and she said no, not to take Hinckley, and you will find that she did know.

MR. GRAVES: Perhaps.

H.M.JR: You will find that she did know that he was for three years or whatever it was - she recommended him to OCD and took him down, and in the first place to take a man and pay him forty-six hundred who was getting thirty-two hundred, I can't understand.

MR. GRAVES: It is bad.

H.M.JR: And a man who was President for three or four years of the Youth Congress during its worst period - I mean, it is right in his application blank.

Now, I am going to have to have this fight. You will find that Helen Dallas did know and furthermore Helen Dallas took the woman who was kicked out of OCD, this Boardman, whom they kicked out, this girl, and hired her. They dismissed Miss Boardman from OCD, you know, and as far as Mrs. Roosevelt - Mrs. Morgenthau asked Helen Dallas for suggestions. She suggested Mr. Hinckley. They looked into him, and Mrs. Morgenthau asked Mrs. Roosevelt and she said, "No, this man was President of the Youth Congress, and even though he got out he never has made a statement condemning any of the things that they have done."

(Mr. Haas entered the conference.)

H.M.JR: I am almost positive you will find that Miss Dallas did know.

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MR. GRAVES: Well, I talked with Miss Dallas and she gave me the impression that she did not know of that connection.

H.M.JR: Well, she has a nice fight on her hands, and it is very unfortunate. Why, the amount of time that has gone into this thing is unbelievable. It all could have been avoided if anybody had just seen that this man was President of the Youth Congress.

(Mr. Foley entered the conference.)

H.M.JR: And it must say so in his application. Where is his application?

MR. THOMPSON: That is his application. I don't think that was in it. I think that was found out in the investigating.

H.M.JR: Well, we have got a beautiful fight, and it will all come up to me and everything else. It is just one of those thing which I think could have been avoided. It was very unfortunate. I am approving his dismissal.

MR. GRAVES: Of course, it is not strictly a dismissal, Mr. Morgenthau. He was hired subject to--

H.M.JR: I know, but this woman is going to want to see me and--

MR. GRAVES: Incidentally, I have promised to see Miss Nelson, and I intend to do that at the very first chance.

H.M.JR: Ask Miss Dallas whether she didn't know that.

MR. GRAVES: I will.

MR. THOMPSON: There is always that risk where you appoint prior to the investigation.

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H.M.JR: How is a man that never earned more than thirty-two hundred dollars a year getting forty-six hundred?

MRS. KLOTZ: That is not unusual, is it?

MR. THOMPSON: No, I wouldn't say so.

MRS. KLOTZ: We do it all the time.

MR. THOMPSON: That is the job set-up, in those grades.

MR. GRAVES: There is no question about the man's ability. I have no doubt he has the ability to fill a forty-six hundred dollar position.

H.M.JR: And there is nothing in there to prove he is a Communist, either.

MR. WHITE: Why is he being fired?

H.M.JR: Harry, if you want to get in it, God bless you.

MR. WHITE: Well, I agree with you he might not be hired--

H.M.JR: He is being fired. He was taken on trial and - what do you pay him, for three months now?

MR. GRAVES: Oh, no, as I recall, he began the ninth of February, and he will be paid for the time he actually worked.

Answering Harry's question, he was hired, as everyone is in our department, subject to an investigation to determine his suitability from the point of view of a character investigation.

MR. WHITE: Well, that is a pretty thin - I don't know much about the man, but if all he has been is

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connected with the American Youth Congress at a time like this and if he has dropped - you say he isn't a Communist and hasn't got a criminal record. I don't know.

H.M.JR: Well, I dropped him on this because when he was President of the American Youth they stood for everything which I don't stand for.

MR. WHITE: I hope not, but there are a lot of things they stood for that you stand for, Mr. Secretary.

H.M.JR: I say they stood for a lot of things that I don't stand for, and I don't want a man who was President of the American Youth Congress for three years contacting youth in America as my representative. There have been a lot of good people who have gone over this thing and concurred. Spingarn, Gaston, Odegard, Leo Goodman of the CIO--

MR. WHITE: All agree with you that he should be dropped?

H.M.JR: Oh, they all recommend this. T. F. Wilson, Sloan.

MR. WHITE: Did Gaston recommend it, Mr. Secretary?

H.M.JR: Yes.

MR. WHITE: He asked me whether I wanted to get in it, and I said no, I didn't. He wanted my opinion, and I said I didn't know enough about it and didn't want to get in it, and I thought he would be - I said I was sure that they would treat the case fairly. He sent me a copy of his recommendation. I read it differently if I saw the same one that you did.

MR. GRAVES: As to that, Mr. Gaston did submit a memorandum to me recommending that we do not drop the man, and afterward we had more information and Mr. Spingarn talked at length with Mr. Gaston, and Mr. Gaston told me, as well as Spingarn, that he had changed his view and believed that the man should not be hired.

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MR. WHITE: I didn't know that.

H.M.JR: Well, Mrs. Morgenthau, who always wants to give these people the break, read the whole thing for me last night, and she said, "The man should be dropped." He was the President of this Youth Congress at its worst, and he should not be contacting youth for the Treasury. I mean, if I said to you, "Harold, please hire this person or woman, and for three years he was President of the American Youth Congress, from '36 to '39," you would laugh at me. You would laugh at me.

On the other hand, there is this girl, Jane Seever, who is out of a job and who was over there, and did a swell job who could be hired, and I wish you would look into her.

MR. GRAVES: Jane Stephens?

H.M.JR: Seever. She is a good kid. She is in the two thousand dollar class. She was with OCD. I hate to have to take the time here, and I took an hour and a half last night to read it. Just take a look at Jane Seever. I think it is Seever.

Norman?

MR. THOMPSON: General Somervell has no order that he can give me a copy of for you here. They are still discussing it. I did get a copy of the order setting up the reorganization which covers the Transportation Division.

H.M.JR: Well, I think I would rather wait.

MR. THOMPSON: I will get it as soon as it is

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ready.

H.M.JR: What else?

MR. THOMPSON: I just have this Kamarck case. Do you want me to stay?

H.M.JR: Yes, if you wouldn't mind.

Dan?

MR. BELL: We didn't have to borrow any money last night. We have about twelve million dollars after using ninety million of the Stabilization Fund. We have now used about a hundred and twenty-three million of that Fund.

H.M.JR: Now much interest do you charge him, Harry?

MR. BELL: That is without interest.

MR. WHITE: Our policy is no interest now.

MR. BELL: But we contacted six large banks in New York yesterday and told them that we might have an overdraft, and that we would like to sell them one-day certificates, and all but one said, "You can take any amount you want to up to the limit of our excess reserves, and whatever interest you want to give us," and we told them we would give them one fifth. They

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were all pleased with that except one, and before they committed themselves, they wanted to know what the interest rate was. It was very interesting.

H.M.JR: So you are all right.

MR. BELL: Yes, we are all right this morning.

H.M.JR: Good.

MR. BELL: Some of us thought we might get a lot of Saving Bonds redeemed this month, but there haven't been many come in, only eleven million up to the fourteenth. It hasn't been large at all. That is all I have.

H.M.JR: Harry?

MR. WHITE: The Cuban delegation that is here and going over monetary and banking systems are now ready to request the purchase of five million dollars worth of gold on credit. We took that up some time ago. It was in our recommendation of their immediate action. They are going to use that gold to redeem the notes, and then buy dollars and pay back the gold in sort of a rotating fund. It is different than the usual arrangement.

H.M.JR: Where does the gold stay?

MR. WHITE: They will probably keep it here, but they don't have to, and that would not be a condition of it. This difference from every other arrangement is that it is a sale of gold on credit, but they get the dollars very quickly to pay the gold back.

H.M.JR: What gold do you sell them?

MR. WHITE: Well, it will be out of the Stabilization Fund, a stabilization operation.

H.M.JR: And the gold doesn't stay here?

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MR. WHITE: They probably will keep it here, because I think they would be unwise to move it, but I don't think it would be a condition.

H.M.JR: Why not?

MR. WHITE: Well, I think they would have a right to feel quite sore about it if we insisted on it. We might suggest it from the point of view of loss in transportation, of course, and I believe that they will quite readily agree with it.

H.M.JR: Well, how would I feel if they had the gold and didn't pay me?

MR. WHITE: Well, it is a pretty secure arrangement, because--

H.M.JR: I thought the Federal Reserve was against installment buying. (Facetiously.)

MR. WHITE: This is installment selling of everything that we are short on, Mr. Secretary.

MR. BELL: Is that the usual arrangement, Harry, of one and a half percent?

MR. WHITE: There will be an interest, yes, of one and a half percent.

MR. BELL: All it is then is just a regular stabilization loan in dollars, that is all it is.

H.M.JR: What are you going to do, Harry?

MR. WHITE: Well, we are going to submit it to you for approval. I am just letting you know ahead of time.

H.M.JR: Has it got half my name already written on the signature?

MR. WHITE: Everything but the period. (Laughter.) I think we got that a couple of months ago, didn't we, Dan?

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H.M.JR: Are you on his side?

MR. BELL: I don't know a thing about it. This is the first I have heard of it.

MR. WHITE: What? What? (Laughter.) Be careful, Dan, we have got your approval in writing.

MR. BELL: Have you?

MRS. KLOTZ: He made sure of that.

MR. BELL: I don't remember it. It sounds to me just like a regular stabilization loan.

H.M.JR: It looks as though you and I are sunk, Dan.

MR. BELL: Usually.

H.M.JR: Well, as a matter of high policy I will go along with you, Harry.

MR. WHITE: Without a letter from the Secretary of State? (Laughter.)

H.M.JR: All right?

MR. WHITE: All right, sir.

H.M.JR: Incidentally, this thing I broached without knowing a thing about alcohol and sugar in Cuba evidently is a very hot subject.

MR. WHITE: Oh my, I got a memo on it, and I don't know whether it will all peter out or whether it will emerge in a fight. The WPB says they have got enough alcohol to drown everybody in the country, a surplus of alcohol, and there is apparently a difference of opinion, but we are pursuing it a little further, and we will have a final memorandum for you.

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H.M.JR: Well, one thing I wish you would look into, because there seems to be a difference of opinion, I gathered from these gentlemen who were here that there is a by-product which you can not make sugar out of which they have. You remember they talked about the left-hand molasses--

MR. WHITE: Yes, there is a by-product of molasses--

H.M.JR: ... which can not be made into edible sugar--

MR. WHITE: I always thought that, but I am not sure.

H.M.JR: ... which could be made into alcohol in Cuba. Would you just as a matter of interest - you remember they spoke of left-hand molasses.

MR. WHITE: Yes. The State Department called up, in the person of Collado, who now speaks for Welles. He said that Welles is interested in knowing exactly--

H.M.JR: He speaks to Welles? Who does Welles speak to?

MR. WHITE: Who does Welles speak to or for? He speaks to a lot of people. He speaks only for himself.

H.M.JR: I thought it was like the Cabots.

MR. WHITE: No, I don't think he is religious. He didn't bother with any handicaps. I mentioned the fact that sugar was taken up, or oil. The molasses, I mean. You have got me all balled up here. (Laughter.)

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H.M.JR: Harry, don't let your left hand know what your right hand does with the molasses.

MR. WHITE: It is the other way around. (Laughter) That is why I was confused. I had the wrong hand in my pocket. I said that you had suggested alcohol there and they said, "Why, we hope you won't get into that because we have been discussing that with them and have been making a good deal of progress." I said they didn't seem to have any knowledge of that. He said, "Well, the man we were talking to was Castro." He was the fellow who was sitting here. I said, "Well, we will keep you forward." So apparently the State Department is also concerned.

H.M.JR: I would say it was a good subject. O.K. George?

MR. WHITE: There is one other point on something else. I had sent a memo in. I think that you might consider appointing a committee to go into the subject or general rationing as distinguished from specific rationing. It is primarily the responsibility of Henderson's outfit, but it is intimately tied up with the question of forced saving and voluntary savings and inflation. I think it is something that you will want to become very familiar with and if you are convinced, take a position on it very quickly within the next couple of weeks.

H.M.JR: I have.

MR. WHITE: On what, on general rationing?

H.M.JR: Yes.

MR. WHITE: Well, if we mean the same thing by general rationing, which I suspect we don't, I don't think you have taken a position. (Laughter)

H.M.JR: Would you tell me confidentially what your position is?

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MR. WHITE: Well, yes. General rationing--

H.M.JR: Nobody is listening. It is just for you and me.

MR. WHITE: Nobody will tell anybody but their best friend. Well, this is a position I am not ashamed of because I think it will be the position you will come around to eventually. (Laughter) I mean, I think it will be adopted. General rationing relates to the rationing of spending power, of expenditures rather than specific items. In other words, it is an arrangement whereby you decide how much a man can spend on consumers' goods rather than the specific commodities upon which he can spend it, and some work has been done on it. I think a good deal more work will have to be done on it, but I think that if you appoint some committee here to give you a report on it there will be a good deal spoken of it, I think, in the next few months, and it is one of those things that takes about five or six months to put into operation. //

H.M.JR: Who is interested in the Harry White formula of the rationing?

MR. WHITE: Who should be interested?

H.M.JR: Raise their hand, who is interested.

(Mr. Paul, Mr. Blough and Mr. Haas raised their hands.)

H.M.JR: The Research Division certainly should be. Well, there is Bell and White and Haas and your cohorts. Paul?

MR. PAUL: Yes.

H.M.JR: All right, there is a committee.

MR. HAAS: You don't want to confine it to just that one type, do you, Harry?

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MR. WHITE: I did, just on that one report.

H.M.JR: We will make White chairman of that Committee.

MR. WHITE: Thank you. That will make it easy to disapprove the report.

H.M.JR: George, have you got those airplane figures?

MR. HAAS: Could I see you for a minute about them? There is a question.

H.M.JR: It depends on when Senator Brown gets here. I can see you right afterward.

MR. HAAS: Tickton is back and has an interesting story.

H.M.JR: I want to see him.

MR. HAAS: That is all I have.

H.M.JR: Harold Graves?

MR. GRAVES: I have nothing unless you want to talk about this Brown memorandum.

H.M.JR: We will see how much time we have.

MR. GRAVES: I have nothing else.

H.M.JR: Let's try to have a meeting at 9:15 Thursday of your group.

MR. GRAVES: Of my group?

H.M.JR: Yes.

MR. GRAVES: Nine-fifteen Thursday?

H.M.JR: Yes, nine-fifteen.

MR. GRAVES: Yes.

H.M.JR: Jake? Roy? Wonderful. Ferdie?

MR. KUHN: Mr. Murray who has been doing those recorded programs, is coming on Thursday and we are all very anxious to put down a red carpet for him. I wondered if you could see him Thursday.

H.M.JR: What is it going to be a funeral or a wedding?

MR. KUHN: Just an elaborate pat on the back which I think he deserves.

H.M.JR: What are we doing at eleven o'clock, Thursday?

MRS. KLOTZ: Nothing.

H.M.JR: All right, eleven o'clock.

MRS. KLOTZ: What is his name, Murray?

H.M.JR: Murray, and will you please hire a red carpet and a few potted palms?

MR. BELL: On that Brown thing, Mr. Secretary, he gave me a little memorandum at the hearing the other day and I gave it to George Buffington. I don't know whether he has done anything about it or not. Do you recall that pencilled memorandum I gave you that Senator Brown handed me on the proposition of paying overtime in savings bonds?

MR. BUFFINGTON: I have a memorandum.

H.M.JR: Well, I won't make any commitments, don't worry.

MR. SULLIVAN: Norman Cann wanted to go to New York this afternoon and he wanted me to speak to you to see if it would be all right. I think we had better let him

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go. He has been working pretty hard.

H.M.JR: You don't have to clear those things with me.

MR. SULLIVAN: All right.

H.M.JR: It is your responsibility.

MR. SULLIVAN: They had a hearing before the Rules Committee yesterday. When you have some time I will tell you about it, if you enjoy the Marx Brothers.

H.M.JR: Can you take them off?

MR. FOLEY: He took them off yesterday and did a good job.

MR. SULLIVAN: I have never read anything like that performance up there.

H.M.JR: On what?

MR. SULLIVAN: The Cochran Bill.

H.M.JR: Well, is it out or not out?

MR. SULLIVAN: No, they may vote on it today.

H.M.JR: I see. They couldn't get a rule?

MR. SULLIVAN: They didn't get it yesterday.

H.M.JR: I want you to know that the next gentleman (Foley) is taking the New York and Washington lawyers and throwing them into the Potomac successfully. Nothing has happened since last night, has it?

MR. FOLEY: No.

MR. SULLIVAN: They are still in the Potomac.

H.M.JR: He did what Dean Acheson said he couldn't

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do and everybody is out on Aniline and Dye who were in. Our people are in a hundred percent. Is that right?

MR. FOLEY: That is right. Two law firms are both out and the entire board and all of the top executives.

MR. PAUL: I left just in time, didn't I?

MR. FOLEY: Yes.

H.M.JR: As a result of that we are going to open a new law firm in New York called Foley, Paul and Morgenthau. We expect to live on the Republican WPA.

MRS. KLOTZ: You will have to.

H.M.JR: What else, Ed?

MR. FOLEY: I have nothing. We will be ready with that order today when you want it.

H.M.JR: All right, I am in good shape.

MR. SULLIVAN: We will have those preliminary estimates on collections, I think, by noon.

H.M.JR: All right.

MR. SULLIVAN: You didn't use any of those figures yesterday in your press conference?

H.M.JR: No.

MR. SULLIVAN: I am very glad.

H.M.JR: Well, they didn't press me, you see.

MR. SULLIVAN: Well, I am glad they didn't because they looked so good I was afraid the press would stress the increase in collections and that might hurt on the Hill.

MR. BELL: Let's don't use any of them. Remember '37 when we used them we were two hundred million off.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 16, 1942

TO Secretary Morgenthau
FROM H. D. White

HDW

There is appended a memorandum on a meeting with some of Leon Henderson's men held in my office to discuss Rationing of Consuming Power (as distant from goods' rationing). The meeting grew out of a conversation I had with Henderson on the subject following his letter to you. There is also appended a preliminary memorandum prepared by Mr. Gass of this Division on "General Rationing".

I believe the Treasury, in connection with the problem of forced and voluntary savings and inflation, should give careful consideration to the rationing of expenditures as outlined in the memorandum. //

A special committee in the Treasury consisting of a representative of each of the three research divisions might be assigned the task of preparing a written report to you to be ready within a short time. The problem will probably become acute six months from now and if that approach is found to be desirable, many months are needed to get Congressional approval and to complete preparations.

I think you ought to be thoroughly familiar with the proposal and, if you find it favorable, take a position on it as soon as possible, even though the ultimate responsibility would rest on Henderson's organization.

We are doing no further work on the problem. // X

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 12, 1942

TO Mr. White

FROM Mr. Gass

Subject: Meeting with representatives of O.P.A. on Compulsory Saving and General Rationing

A meeting was held in Mr. White's office, at 3:30 p.m. on March 11, to discuss Mr. Leon Henderson's proposed immediate support for compulsory saving and the possibility of his accepting General Rationing six months hence as a substitute. Present were Mr. White (with an interval), Mr. R. Gilbert, Mr. W. Salant, Mr. E. M. Bernstein and Mr. Gass.

The O.P.A. representatives were interested in winning Treasury support for immediate establishment of compulsory saving to yield \$5-6 billion, in addition to the Treasury's \$9 billion tax program. They regarded this compulsory saving as a part of a rounded program which would also include wage-rate stabilization, retail price control and the extension of specific rationing "as rapidly as administrative difficulties permit". Their plans on compulsory saving were apparently in the most preliminary stage; they had no idea of the rates, exemptions, consumption incidence, etc., which they would support.

The O.P.A. representatives conceded that, in principle, General Rationing is superior to compulsory saving, but they argued that General Rationing is not politically possible now and that a program entailing further restriction of consumers' outlays is urgent now. They believed that Mr. Henderson would come out in favor of compulsory saving before the Ways and Means Committee. They indicated that Mr. Henderson would submit his proposed testimony to the Secretary before appearing and that they would also send the Treasury an analysis supporting their view of the urgency of further measures to restrict civilian consumption at the present time.

The Treasury representatives argued that (1) the situation was by no means so urgent at present as O.P.A. suggested, (2) in the long run General Rationing was the correct solution, and (3) if the situation was as serious as Mr. Gilbert suggested, no material contribution to its solution would be made by \$5-\$6 billion of compulsory saving.

It emerged that there was no essential difference about forecasts insofar as they related to the real supply of goods and services for civilian consumption. The Treasury estimate has been about \$64 billion, in average 1941 prices. Mr. Gilbert's estimate was about \$65 billion.

However on the monetary demand side, especially insofar as demand is created by defense expenditures, there was a wide divergence. Treasury estimates have been that total defense outlays would rise, at best, from about \$25-1/2 billion in December 1941 to about \$56-1/2 billion in December 1942: this is the Budget program, and it implies total defense outlays of slightly over \$40 billion this calendar year. Mr. Gilbert said that O.P.A. and W.P.B. were sure that defense expenditures would rise to about \$70 billion by December 1942 and that defense expenditures this calendar year would be about \$50 billion. Mr. Gilbert added that he did not know why the Treasury did not receive full information on scheduled expenditure programs and why the Treasury was not making the full analysis of expenditure flows which apparently it was not making and which, he thought, was its business.

The O.P.A. representatives returned several times to the points (1) that, in principle, General Rationing would be the best way of securing the necessary war-time restriction of consumption, (2) that one General Rationing scheme would be easier to administer than the many specific rationing schemes that will be the necessary alternative, (3) that the basic objection to General Rationing is political, (4) that nevertheless they feel confident that, should the Treasury come out for General Rationing, O.P.A. will support the Treasury position, (5) that some further fiscal measure to restrict consumption is needed right now, (6) that the correct measure is compulsory saving, and (7) that Mr. Henderson will come out before the Ways and Means Committee in favor of compulsory saving.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1942

TO Mr. White

FROM Mr. Gass

Subject: General Rationing and the War Production Program for the Fiscal Year 1943

1. The accomplishment of the war production program for the fiscal year 1943 will require that the supply of goods for civilian consumption in the year from July 1, 1942 to June 30, 1943, be about \$10 billion less than during the calendar year 1941 (in average 1941 prices). About \$7 billion of this reduction must come from a decrease in the supply of consumers' durable goods and about \$3 billion from a decrease in the supply of non-durables.
2. This reduction in civilian consumption might be accomplished by reducing the consumption of the average size family from about \$1,850 in 1941 to about \$1,610 in fiscal 1943 and reducing the consumption of single consumers from about \$1,185 to about \$1,000.
3. To accomplish a reduction in consumers' outlays of \$10 billion, at present income levels, through taxation or compulsory saving, would take such an amount of additional taxation or compulsory saving as Congress is not likely to be willing to impose. The magnitude involved depends on the character of the tax imposed, but even a flat withholding tax on all incomes — without exemption — would probably have to yield something of the order of \$18-\$20 billion to reduce consumers' outlays by \$10 billion. A compulsory saving levy, with the same flat incidence, might well have to yield something of the order of \$25-\$27 billion to reduce consumers' outlays by \$10 billion.
4. Taxation and compulsory saving are inherently inequalitarian ways of achieving the desired reduction in consumers' outlays. There will inevitably be pressure to make their incidence as regressive as possible, to diminish the absolute amount required to be collected. Further, even a very progressive income levy would be offset — as far as current consumption is concerned — by the use of balances and credit on the part of the higher income groups.
5. It is suggested therefore that the possibility be explored of limiting consumption directly by a General Rationing or War Expenditure scheme, which would fix maximum consumption expenditure allowances for each consumer unit in the economy, on the basis of needs, income and possibly other factors.

Rough Estimates of Consumption of Single Consumers
Calendar year 1941 and fiscal 1943
(Constant prices)

Income Level	Number (thousands)		Average Consumption		Rationed Area Consumption		Aggregate Consumption (millions)		Aggregate Rationed Consumption (Millions)	
	1941	1943	1941	1943	1941	1943	1941	1943	1941	1943
Under \$500	1,774	1,538	\$ 369	\$ 370			\$ 655	\$ 569		
\$500 - \$750	1,628	1,411	618	620			1,006	875		
\$750 - \$1,000	1,536	1,332	822	800			1,263	1,066		
\$1,000 - \$1,250	1,359	1,178	1,014	975			1,378	1,149		
\$1,250 - \$1,500	1,225	1,062	1,184	1,125			1,450	1,195		
\$1,500 - \$1,750	822	713	1,350	1,250			1,110	891		
\$1,750 - \$2,000	538	466	1,483	1,350			798	629		
\$2,000 - \$2,500	791	686	1,738	1,500			1,378	1,029		
\$2,500 - \$3,000	417	362	2,010	1,625			838	588		
\$3,000 - \$4,000	397	344	2,368	1,775			940	611		
\$4,000 - \$5,000	196	170	2,806	1,900			550	323		
\$5,000 - \$10,000	176	153	3,937	2,200			693	337		
\$10,000 and over	91	79	9,967	5,000			907	395		
All Levels	10,950	9,500	\$1,184	\$1,016			\$12,963	\$9,656		

Rough Estimates of Consumption of Average Size Families
 Calendar year 1941 and fiscal 1943
 (Constant prices)

Income Level	Number (thousands)		Average Consumption		Rationed Area Consumption		Aggregate Consumption (millions)		Aggregate Rationed Consumption (millions)	
	1941	1943	1941	1943	1941	1943	1941	1943	1941	1943
Under \$500	2,315	2,366	\$ 507	\$ 510			\$ 1,173	\$ 1,207		
\$500 - \$750	2,849	2,911	714	715			2,033	2,081		
\$750 - \$1,000	3,027	3,093	919	920			2,781	2,846		
\$1,000 - \$1,250	3,333	3,406	1,134	1,135			3,781	3,866		
\$1,250 - \$1,500	3,682	3,763	1,322	1,325			4,868	4,986		
\$1,500 - \$1,750	2,837	2,899	1,517	1,520			4,303	4,406		
\$1,750 - \$2,000	2,260	2,309	1,699	1,600			3,840	3,694		
\$2,000 - \$2,500	3,739	3,821	1,995	1,850			7,439	7,069		
\$2,500 - \$3,000	2,338	2,389	2,312	2,050			5,406	4,897		
\$3,000 - \$4,000	2,530	2,585	2,743	2,300			6,941	5,946		
\$4,000 - \$5,000	1,311	1,340	3,310	2,500			4,339	3,350		
\$5,000 - \$10,000	1,202	1,228	4,476	3,100			5,380	3,807		
\$10,000 and over	684	699	10,110	7,000			6,915	4,893		
All Levels	32,097	32,800	\$1,844	\$1,617			\$59,199	\$53,048		

Table 1 - Derivation of Gross National Product at Market Prices from National Income (at Factor Costs)
(In billions of dollars)

	1939	1940	1941 ^{1/}
Gross National Product at Market Prices	86.3	94.3	114.7
National Income	70.8	77.2	94.5
Corporation Income, Excess Profits, and Capital Stock Taxes ^{2/}	1.6	2.4	6.4
Other Business Taxes ^{3/}	7.8	8.2	9.4
Depreciation and Depletion Charges	5.2	5.4	5.9
Other Charges and Reserves ^{4/}	1.1	1.0	1.5
Inventory Revaluations	-0.2	0.1	- 3.0

^{1/} Preliminary.

^{2/} Federal and State taxes, accrual basis.

^{3/} Excise, sales, and other direct business taxes, plus 75 percent of State and Local property taxes. Excludes pay roll taxes which are included in national income estimates.

^{4/} Emergency and contingency reserves and bad debt allowances.

National Income Unit, Dept. of Commerce.

Table 2 - Composition of Gross National Expenditure, 1939-1941, and
Calculated Requirements for Fiscal Year 1943
(In billions of dollars)

	1939	1940	1941	1943 ^{1/}
Gross National Expenditure (or Product)	86.3	94.3	114.7	132.0
Government expenditures for goods and services	15.1	16.2	24.7	64.5
National defense expenditures ^{2/}	1.4	2.8	13.3	56.0
Prepayments, land, etc. ^{3/}		-0.3	-1.5	-3.0
Federal non-defense ^{4/}	6.0	5.7	5.3	4.5
State and Local ^{5/}	7.9	8.0	7.8	7.0
Private Output for Private Use ^{6/}	71.0	78.1	90.0	67.5
Private Gross Capital Expenditures	10.0	13.1	16.2	3.5
Constructions:				
Residential	2.0	2.3	2.7	0.5
Factory and Public Utility	0.8	1.1	1.4	0.8
Other	0.9	1.0	1.1	0.2
Equipment	4.2	5.6	6.5	3.0
Net Change in Foreign Claims ^{7/}	0.8	1.3	1.5	0.5
Net Change in Inventories ^{8/}	-1.3	-1.8	-3.0	-1.5
Consumers' Purchases ^{9/}	61.0	65.0	73.8	64.0
Durable goods	7.0	8.3	10.1	3.0
Non-durable goods and services ^{9/}	54.0	56.7	63.7	61.0

1/ Fiscal year. All values in 1941 prices.

2/ Daily Treasury Statement total, plus changes in assets of national defense corporations (except for changes in cash balances).

3/ Adjustment to eliminate expenditures which are not against items included in the gross national product.

4/ Excludes transfer expenditures not included in the national income estimate.

5/ Based upon tax estimates plus changes in long-term debt. Excludes transfer expenditures.

6/ Includes output of public service enterprises for private purchase.

7/ Does not include lend-lease shipments.

8/ Current value of physical change in inventory holdings. Does not include Government stock piles.

9/ Residual.

National Income Unit, Dept. of Commerce.

Table 3 - Changes from 1941 Required to Meet War Production
 Program in Fiscal Year 1943 ^{1/}
 (In billions of dollars)

Net Increase in Projected War Expenditures	41.2
To be derived from:	
Increase in Gross Product	17.3
Decrease in Government non-defense expenditures for goods and services	1.4
Decrease in Private Construction expenditures	3.7
Decrease in Private Equipment expenditures	3.5
Reduction in increase in Foreign Claims	1.0
Reduction of absorption into Inventories	4.5
Decrease in consumers' purchases of durables	7.1
Decrease in consumers' purchases of non-durables	2.7

^{1/} Prices as of 1941.

National Income Unit, Dept. of Commerce.

OUTLINE

General Rationing and the Restriction of Consumption
in the United States

A. The Problem

1. Character of the Problem

During fiscal 1943, if war production program is fulfilled, there will be large gap between supply of goods available for consumer purchase (at, say, March 1942 prices) and amount of goods which consumers will want to buy at those prices, with their incomes as they will be even after Treasury proposed Revenue Act of 1942.

This gap will cause:

- (a) bidding for short supplies,
- (b) rising prices,
- (c) shift of consumption in favor of the rich,
- (d) windfall profits to entrepreneurs,
- (e) pressure for increased wage rates,
- (f) morale stress due to feeling of inequity in carrying of war burden,
- (g) general anticipatory buying by those who have money,
- (h) concentration of "war profiteers" on holding inventories rather than increasing production,
- (i) damage to the war effort,
- (j) increased difficulty in securing full use of resources and equitable distribution of income in post-war period.

2. The Magnitude of the Problem

(a) Treasury estimates (given in the table dated Feb. 4, 1942), which assume an increase of 10 percent in the cost of living between December 1941 and December 1942, give a gap of \$11 billion for the fiscal year 1943. This gap means that the cost of living would increase only 10 percent if consumers could be brought to save \$11 billion more than they are expected to save during the fiscal year 1943.

(b) Mr. Henderson (in his letter of March 2, 1942) writes of "an excess of demand of 12 billion". Since the base points for the calculation of this 12 billion gap are not known, it is impossible to say exactly how much Mr. Henderson's estimate differs from the Treasury one.

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(c) The Treasury estimate assumes a rise of national income of less than 5 percent, in real terms, between December 1941 and average fiscal 1942. It derives a needed reduction of about \$7 billion (in average 1941 prices) in the civilian consumption of durables and about \$3-1/2 billion in non-durables during fiscal 1943 in comparison with calendar 1941. Mr. Milton Gilbert, of the Department of Commerce, has a more favorable income estimate and consequently a smaller gap. — (Neither of these estimates lends any support to Mr. Henderson's assertion that in a few months we shall necessarily be at 1932 consumption levels.) — The Treasury estimate of the gap is, perhaps, somewhat on the high side.

3. The Urgency of the Problem

(a) Would be little inflationary pressure at present time if were not for general anticipatory buying. Index of department store sales (seasonally adjusted) jumped from 111 in December to 137 in January. This is the most serious symptom. But went down to 114 in first week of February; may subside.

125 for month of February

(b) Cost of living index has risen in past two months from 110.2 in November to 110.5 in December but jumped to 111.9 in January.

(c) Total defense expenditures are now running at an annual rate of just over \$30 billion, compared with \$25-1/2 billion in December and \$56-1/2 billion projected for fiscal 1943. Given proposed taxes, Treasury estimated gap of \$11 billion for 1943, but we are \$26-1/2 billion below the then assumed dollar defense expenditures and only about \$4 billion below the then assumed real income.

(d) Query? Is not the public so tax conscious now that the \$9 billion Revenue Act plus Social Security will have very nearly its full effect from now on? This would seriously limit spending even if the actual withholding provisions fail to be enacted.

(e) Conclusion: Should be little inflationary pressure this summer unless (1) scares cause general anticipatory buying, (2) the new taxes are not "anticipated" or withheld, or (3) there is a general increase in the wage level.

(f) Defense expenditures now about \$2-1/2 billion a month. When defense expenditures have passed monthly rate of \$3-3/4 billion will probably be first reasonable time to raise question of further general restriction of consumption beyond that involved in present \$9 billion.

B. Proposed Solutions of the Problem

(Assumed that the problem is to keep the average cost of living for fiscal 1943 not more than 10 percent higher than in December 1942)

1. Taxation

- (a) The amount of taxes needed would be greater than Congress would grant or the public accept.

The Treasury gap estimate of \$11 billion may be a little high; assume \$10 billion. Need to reduce consumers' outlays by \$10 billion. Would have to have taxes of at least \$15 billion and probably over \$20 billion. Taxes could be towards lower limit if regressive, would have to be towards higher if progressive. But even a perfectly flat tax on all incomes, without exemption, would have to yield greatly more than \$10 billion to reduce consumers' outlays by \$10 billion.

- (b) Even if incomes after tax were left very equal, the rich could maintain their consumption by drawing on capital.

Total bank deposits in U.S. about \$70 billion; circulating money about \$11 billion. These figures rough measure of extremely liquid assets. (Ownership distribution would have to be known to know how much might be used for consumption.)

2. Compulsory saving

- (a) The amount of compulsory saving needed to close the gap would be greatly larger than the amount of taxation.

Total unabsorbed personal saving in fiscal 1943 is estimated at \$15-1/2 billion. To reduce consumers' outlays by \$10 billion might take \$15-\$20 billion of taxes; it would take about \$25-\$30 billion of compulsory saving — assuming that about 1/2 of the compulsory saving would merely replace positive voluntary saving and about 1/6 of the compulsory saving would be offset by using up balances and accumulating debts.

- (b) The willingness of the rich to use their capital assets to maintain their consumption would be much greater under compulsory saving than under taxation, and therefore the distribution of the burden of reduced consumption would be even more unequal under compulsory saving than under taxation.

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3. General Rationing

(a) By general rationing is meant the limitation of consumers' demand through the fixing of maximum total consumption expenditure allowances for all families and individual consumers in the economy. The total general ration for the economy is fixed by the volume of resources available for consumption by civilians at the price level which it is desired to maintain. The magnitude of the individual general ration may be determined by considerations of need, incentive, income and other factors.

(b) General rationing should encounter less political opposition than equivalent reduction of consumption through taxation or compulsory saving because does not take people's money away; merely fixes total rationed consumption allowances.

(c) Since fixes total rationed consumption allowances, can not be offset by the use of capital assets; therefore compatible with maximum equality.

(d) Does not require specific price control or specific rationing of consumers' generally rationed goods, though allows specific control should it be desired in the case of disproportionately scarce necessities.

(e) In principle, general rationing is the surest way of getting a desired reduction of total consumers' outlays and a desired degree of equality in consumption. In practice, general rationing has certain administrative problems which may offset its basic superiority to taxation and compulsory saving. These administrative problems need to be examined carefully before any decision is made.

4. Specific Rationing

(a) Unless covers all commodities and fixes all prices, is not an instrument of general price stability. Does not withdraw purchasing power; merely diverts purchasing power.

(b) If reduction in supply is to be met by equivalent reduction in total demand, this task must be accomplished by some other technique than specific rationing. Taxation, compulsory saving, and general rationing are such techniques.

C. General Rationing1. Range of goods included

(In principle, should include all consumption of goods and services. Should exclude all mere exchange of titles, all capital transactions, all savings, all gifts, all taxes. What it is desired to limit is consumers' demand for labor, materials and facilities usable for war production, but it is not desired to render non-convertible resources idle: these must be governing considerations in all special cases.)

(a) The general ration should include food, household operations apart from rent (e.g. light, heat, power, telephone, domestic service, etc.), clothing, automobile expenditures, recreation, furnishings, personal service, tobacco, transportation other than auto, reading, etc.

The approximate 1941 value of consumers' expenditures on these things were, in billions of dollars; food \$22.1, household operations \$7.7, Clothing \$8.1, automobile \$6.5, recreation \$2.7, furnishings \$2.2, personal care \$1.3, tobacco \$1.3, transportation other than auto \$1.3, reading \$0.8, other \$0.4: total \$54.4 billion.

(b) The general ration should exclude rents, medical care, tuition fees, gifts, taxes, insurance and all capital transactions.

The approximate value of consumers' expenditures on these items in 1941 was, in billions of dollars; rents, including imputed rents, \$13.4, medical care \$3.3, education \$0.9 (category in statistics probably too wide), gifts and personal taxes \$5.2, (category in statistics probably too narrow), savings \$15.3; total \$38.1 billion.

2. Magnitude of the Total General Ration for the Economy

(a) According estimates of Dept. of Commerce (Milton Gilbert), which are best yet made, war production program of fiscal 1943, requires reduction of \$9.8 billion in consumers' purchases below level of calendar year 1941 (See appended tables). Further curtailment of civilian consumption would not release resources usable for war production — unless there is a general labor shortage.

(b) Subtracting \$9.8 billion from \$54.4 billion of goods demarcated for rationing above (though Gilbert's estimate of 1941 output in this area would be somewhat higher) leaves \$44.6 billion, at average 1941 prices. But since the cost of living in December 1941 was 110.5 compared to 105.2 average for the year, and since the cost of living is to be allowed to rise a further 10 percent from December 1941 to average fiscal 1943, this \$44.6 billion may be expanded by about 15 percent or to \$51.3 billion.

(c) A magnitude of the rough order of \$52 billion will be appropriate general ration for the whole economy when we reach the annual rate of defense output projected for fiscal 1943. This will surely not be before December 1942. (There will still also be unrationed consumption of about \$17-1/2 billion at 1941 prices — including the imputed income from housing but not from other durable goods.) This ration might be larger if (1) total non-durable production expands more than projected or (2) it is decided to allow an even greater price rise than is here assumed. The ration might be smaller if (1) there is more war use of non-durable than is expected or (2) a general labor shortage emerges or (3) it is decided to adopt a more severe price policy.

3. Distribution of the reduction in consumption by income groups

(a) The total reduction in civilian consumption for fiscal 1943 in comparison with calendar 1941 is \$10 billion, in 1941 prices.

(b) About \$2-1/2 billion might be derived from reduction in the consumption of individuals and families receiving incomes of over \$10,000 in 1941.

(1) There were about 775,000 families and individuals in this group in 1941.

(2) Their aggregate income was about \$18.1 billion, aggregate consumption \$7.8 billion; average income \$23,000, average consumption \$10,000.

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(3) To take \$2-1/2 billion from them, would still leave them with average consumption of over \$6,500 per family or individual consumer unit.

(4) Since they spent, on the average, about \$2,650 on non-rationed goods, the average size of their ration would be about \$3,850, in 1941 prices, or about \$4,775 in the prices assumed for December 1942.

(c) About \$2 billion might be derived from reduction in the consumption of families and single individuals receiving incomes of between \$5,000 and \$10,000 in 1941.

(1) There were about 1,378,000 families and single individuals in this group in 1941.

(2) Their aggregate income was about \$9.4 billion, aggregate consumption \$6.2 billion, average income \$6,800, average consumption \$4,400.

(3) To take \$2 billion from them, would still leave them with average consumption of just under \$3,000 per family or individual consumer unit.

(4) Since they spent, on the average, about \$1,300 on non-rationed goods, the average size of their general ration would be about \$1,700, in 1941 prices, or about \$1,955 in the prices assumed for December 1942.

(d) About \$1 billion might be derived from reduction in consumption of the group receiving incomes from \$4,000 to \$5,000 in 1941.

(1) There are about 1,507,000 families and single individuals in this group.

(2) Aggregate income about \$6.6 billion, aggregate consumption \$4.9 billion; average income \$4,350, average consumption \$3,225.

(3) Taking \$1 billion would leave average consumption of about \$2,360.

(4) Since they spent average of \$785 on non-rationed commodities, could have average ration of about \$1,575 in 1941 prices or about \$1,810 in assumed December 1942 prices.

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(e) About \$1-1/4 billion might be derived from reduction in the consumption of the group receiving income of between \$3,000 and \$4,000 in 1941.

- (1) There were about 2,927,000 families and single individuals in this income group in 1941.
- (2) Aggregate income about \$9.9 billion, aggregate consumption about \$7.7 billion; average income \$3,380, average consumption \$2,680.
- (3) Reducing their consumption by \$1-1/4 billion would leave them with average consumption of \$2,150.
- (4) Since they spent average of \$575 on non-rationed goods, the average size of their ration would be about \$1,575, in 1941 prices, or about \$1,810 in assumed December 1942 prices.

(f) About \$1 billion might be the total reduction in consumption contributed by the income group from \$2,500 to \$3,000.

- (1) About 2,755,000 consumer units in group.
- (2) Aggregate income 1941 was \$7.4 billion, aggregate consumption \$6.2 billion, average income \$2,700, average consumption \$2,260.
- (3) Reduce total consumption of group by \$1 billion would be to reduce average consumption to \$1,900.
- (4) Since they spent, on the average, about \$535 on non-rationed goods, the average size of their ration would be about \$1,465, in 1941 prices, or about \$1,658 in the assumed December 1942 prices.

(g) About \$1 billion might be the reduction in consumption contributed by the income group from \$2,000 to \$2,500.

- (1) About 4,520,000 consumer units are in this group.
- (2) Aggregate income 1941 was about \$10.1 billion, aggregate consumption \$8.8 billion; average income \$2,237, average consumption \$1,940.

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(3) To reduce total consumption of the group by \$1 billion would be to reduce their average consumption to \$1,720.

(4) Since they spent, on the average, about \$440 on non-rationed goods, the average size of their ration would be about \$1,280, in 1941 prices, or \$1,470 in the assumed December 1942 prices.

(h) About \$1/2 billion might be reduction in consumption contributed by income group from \$1,750 to \$2,000.

(1) About 2,798,000 consumer units are in this group.

(2) Their aggregate income in 1941 was about \$5.1 billion, aggregate consumption \$4.6 billion; average income \$1,830, average consumption \$1,650.

(3) To reduce the total consumption of the group by \$1/2 billion would be to reduce their average consumption to \$1,470.

(4) Since they spent on the average about \$390 on non-rationed goods, their average ration would be \$1,080, in 1941 prices, or about \$1,240 in the assumed December 1942 prices.

(i) About \$1/2 billion might be contributed by reduction in consumption of income group \$1,500 - \$1,750.

(1) About 3,659,000 consumer units are in this group.

(2) Aggregate 1941 income \$5.9 billion, aggregate consumption \$5.4 billion; average income \$1,610, average consumption \$1,465.

(3) Their average consumption would have to fall to \$1,330 in 1941 prices - actually the whole of this reduction might be borne by single individuals and none of it by families: this will be shown in a later draft.

(4) Since they spent on the average \$345 on non-rationed goods, their ration would be \$995 in average 1941 prices and \$1,155 in the assumed prices of December 1942.

(j) The total reduction in consumption accounted for above is, by addition, \$9-3/4 billion. Actually it is larger than \$10 billion because in fiscal 1943 there will be a decrease in the total number of civilian consumers. In fiscal 1943 the armed forces will average at least 4-1/2 million; or 3 million higher than their average for calendar

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1941. Population growth will make up only about 1-1/2 million. The net withdrawal will be of full consumers, most of them independent consumer units. Therefore, if consumption is withdrawn from all incomes having a 1941 dollar value as indicated above, there will be more than enough total reduction of civilian consumption.

(k) To summarize, the fiscal 1943 war production program is consistent with no reduction in consumption for consumer units having incomes below \$1,500, in average 1941 prices. This conclusion does not follow from mere arithmetical manipulation; it follows from reducing consumption most drastically in precisely those income brackets which purchase the durable consumers' goods which compete with defense output.

(l) It does not follow that maximum equity and efficiency would result from no effective general rationing of consumers' units below \$1,500. On the contrary the consumption of those consumer units below this level which consist of single individuals might well be reduced sharply and the proceeds made available to family units in the same income bracket.

Further, the ration of the whole population should be so adjusted as to allow the maximum incentive to overtime work and special piece work performance. All overtime and special performance pay should have a high ration value -- at least 50 percent.

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D. Administrative Problems of General Rationing

1. Basic administrative problem of General Rationing derives from fact that it is two money system — one ordinary money and one special money for consumption of rationed goods.
2. General Rationing must take the form of giving consumers coupons equal to the value of their general ration. These coupons might be called War Spending Stamps and the whole system might be called the War Spending System.
3. War Spending Stamp distribution should be integrated with withholding tax administration. The employer will be responsible to the Treasury both for the tax withheld and for the stamps distributed.
4. In the case of the self-employed, individuals having such income will be required to file a quarterly income return for withholding tax purposes. The same return could be used as a basis for War Spending Stamp distribution.
5. Equity would require that certain large classes of "self-suppliers", especially farmers, report their approximate non-market consumption and that their general ration be fixed accordingly.
6. The stamps should be non-transferrable. For this purpose, they should be attached to a book and detachment should be equivalent to cancellation.
7. Giving each family only a single book may create some inconvenience, and therefore it may be desirable to issue more than one book in which the total general ration will be divided as the family requests.
8. Great inconvenience would result from having to use stamps to buy newspapers, in subway slots, pay telephones, etc. Expenditures not exceeding five cents should therefore be excluded from the general ration. A more liberal exemption would create great difficulties because it would place a premium on multiplying small purchases.
9. Money should be allowed to be used outside the general ration for the liquidation of existing debt incurred before some base date. New consumption debt is a great problem; in principle it should be allowed only in hardship cases of low incomes. Living on capital will probably have to be allowed on submission of evidence that it is necessary.

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10. A series of regional offices for the adjustment of hardship cases should be established. These might have an element of local participation, but local people should not be dominant if uniform practice is to prevail.

11. The stamps collected could be used, in the case of commodities, for inventory control. No retailer should be allowed to replace his stock without giving up an equivalent amount of cancelled stamps.

12. For maximum value, general ration should be brought up only when seriousness of situation makes likely quick passage. Otherwise rush to buy before general ration goes through may deplete inventories so much as greatly to offset its basic advantages.