Analysis of Exposure to Payroll Savings Plans
March 14, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Large railroads	158	167	95
(2) Other firms with 500 employees or more	5,327	7,286	73
(3) Other firms with 100 to 499 employees	12,594	26,819	47
(4) Subtotal - large firms	18,079	34,272	53
(5) Firms with less than 100 employees	26,193	*	*
(6) Total business organizations	44,272	*	*
II. Governmental organizations	*	*	*
III. Grand total	44,272	*	*
Part B - Summary by Number of Employees Exposed			
I. Business organizations			
(1) Large railroads	1,273,260	*	*
(2) Other firms with 500 employees or more	13,616,202	*	*
(3) Other firms with 100 to 499 employees	2,759,196	*	*
(4) Subtotal - large firms	17,648,658	*	*
(5) Firms with less than 100 employees	670,401	*	*
(6) Total business organizations	18,319,059	30,400,000 1/	60
II. Governmental organizations			
(1) Federal Government	797,981	1,700,000 1/	23
(2) State and local governments	514,483	2,700,000	34
(3) Total governmental organizations	1,312,464	4,400,000	30
III. Grand total	19,631,523	34,800,000 1/	56

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

March 20, 1942

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.
* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Jan. 10	Mar. 7	Mar. 14		Jan. 10	Mar. 7	Mar. 14
Alabama	17	104	109	285	6	36	38
Arizona	15	39	40	58	26	67	69
Arkansas	22	37	38	142	15	26	27
Northern California	160	436	461	489	33	89	94
Southern California	495	679	686	1,171	42	58	59
Colorado	64	107	108	170	38	63	64
Connecticut	100	255	259	622	16	41	42
Delaware	0	0	6	84	0	0	7
District of Columbia	8	36	37	152	5	24	24
Florida	48	112	122	139	35	81	88
Georgia	56	98	104	589	10	17	18
Idaho	19	26	26	50	38	52	52
Illinois	48	916	966	2,252	2	41	43
Indiana	0	321	358	586	0	55	61
Iowa	4	97	104	271	1	36	38
Kansas	114	272	275	275	41	99	100
Kentucky	75	106	108	312	24	34	35
Louisiana	0	119	145	384	0	31	38
Maine	3	46	50	198	2	23	25
Maryland	32	111	121	405	8	27	30
Massachusetts	53	557	561	1,523	3	37	37
Michigan	137	585	621	1,022	13	57	61
Minnesota	181	356	366	399	45	89	92
Mississippi	30	51	56	143	21	36	39
Missouri	0	371	392	664	0	56	59
Montana	22	35	35	39	56	90	90
Nebraska	6	77	83	123	5	63	67
Nevada	8	14	14	24	33	58	58
New Hampshire	7	68	79	145	5	47	54
New Jersey	171	300	300*	869	20	35	35
New Mexico	12	31	32	35	34	89	91
New York	505	1,603	1,674	4,233	12	38	39
North Carolina	29	157	206	499	6	31	41
North Dakota	4	8	8	29	14	28	28
Ohio	0	773	888	1,739	0	44	51
Oklahoma	29	145	152	345	8	42	44
Oregon	21	174	177	271	8	64	65
Pennsylvania	713	1,441	1,491	2,032	35	71	73
Rhode Island	46	138	141	224	22	62	63
South Carolina	13	61	66	174	7	35	38
South Dakota	5	16	18	19	26	84	95
Tennessee	0	79	79*	448	0	18	18
Texas	74	154	233	1,375	5	13	17
Utah	13	26	33	111	12	23	30
Vermont	30	51	51	63	47	81	81
Virginia	31	164	190	338	9	49	56
Washington	71	200	208	325	22	62	64
West Virginia	0	58	64	272	0	21	24
Wisconsin	0	222	237	680	0	33	35
Wyoming	1	14	14	14	7	100	100
Alaska	0	2	2*	2	0	100	100
Railroads	46	49	49	52	88	94	94
Total	3,541	11,937	12,643	26,871	13	44	47

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

March 20, 1942

* Data are for March 7, inasmuch as no March 14 report was received.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Jan. 10	Mar. 7	Mar. 14		Jan. 10	Mar. 7	Mar. 14
Alabama	9	43	45	76	12	57	59
Arizona	15	19	21	21	71	90	100
Arkansas	6	16	16	18	33	89	89
Northern California	114	146	151	196	58	74	77
Southern California	123	158	160	165	75	96	97
Colorado	22	23	23	32	69	72	72
Connecticut	97	146	148	185	52	79	80
Delaware	2	2	6	28	7	7	21
District of Columbia	12	26	26	52	23	50	50
Florida	18	33	33	66	27	50	50
Georgia	35	52	54	143	24	36	38
Idaho	8	9	9	10	80	90	90
Illinois	277	398	402	634	44	63	63
Indiana	41	111	117	180	23	62	65
Iowa	9	38	38	53	17	72	72
Kansas	16	32	33	33	48	97	100
Kentucky	19	40	40	70	27	57	57
Louisiana	0	31	34	85	0	36	40
Maine	42	54	54	54	78	100	100
Maryland	40	100	102	154	26	65	66
Massachusetts	41	261	267	370	11	71	72
Michigan	305	325	327	333	92	98	98
Minnesota	87	102	102	105	83	97	97
Mississippi	12	15	16	28	43	54	57
Missouri	0	147	148	148	0	99	100
Montana	4	5	5	5	80	100	100
Nebraska	28	36	36	41	68	88	88
Nevada	3	5	5	5	60	100	100
New Hampshire	17	28	30	30	57	93	100
New Jersey	185	227	227*	238	78	95	95
New Mexico	5	6	6	6	83	100	100
New York	435	807	820	1,350	32	60	61
North Carolina	49	104	108	168	29	62	64
North Dakota	0	1	1	1	0	100	100
Ohio	285	470	488	557	51	84	88
Oklahoma	22	38	40	62	35	61	65
Oregon	51	69	69	69	74	100	100
Pennsylvania	336	532	541	625	54	85	87
Rhode Island	58	73	73	90	64	81	81
South Carolina	27	66	68	96	28	69	71
South Dakota	3	4	4	4	75	100	100
Tennessee	4	22	22*	106	4	21	21
Texas	36	58	58	187	19	31	31
Utah	8	10	10	14	57	71	71
Vermont	10	12	12	13	77	92	92
Virginia	41	87	89	95	43	92	94
Washington	44	55	58	74	59	74	78
West Virginia	2	41	41	67	3	61	61
Wisconsin	84	137	140	140	60	98	100
Wyoming	0	1	1	1	0	100	100
Alaska	0	3	3*	3	0	100	100
Railroads	98	109	109	115	85	95	95
Total	3,185	5,333	5,436	7,401	43	72	73

Office of the Secretary of the Treasury, Division of Research and Statistics. March 20, 1942

* Data are for March 7, inasmuch as no March 14 report was received.

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

(In thousands of pieces)

	Number of pieces sold this day	Number of pieces manufactured this day	Stock on hand at close of day	IBM deliveries this day
Mar. 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	-
15	none-closed	none-closed	26,384	-
16	271	300	26,413	-
17	144	300	26,569	-
18	148	300	26,721	650

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

March 19, 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 Fifteen Business Days of March, February and January 1942
(March 1-18, February 1-18, January 1-17)
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	$ 52,783	$ 60,245	$ 93,828	-$ 7,462	-$ 33,583	- 12.4%	- 35.8%
Series E - Banks	152,247	225,241	258,108	- 72,994	- 32,867	- 32.4	- 12.7
Series E - Total	205,030	285,486	351,936	- 80,456	- 66,450	- 28.2	- 18.9
Series F - Banks	25,126	35,164	38,409	- 10,038	- 3,245	- 28.5	- 8.4
Series G - Banks	114,964	178,238	155,101	- 63,274	23,137	- 35.5	14.9
Total	$345,120	$498,887	$545,446	-$153,767	-$ 46,559	- 30.8%	- 8.5%

Office of the Secretary of the Treasury, Division of Research and Statistics. March 19, 1942.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - March, 1942
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series 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
16	4,464	13,193	1,415	8,693	23,301	17,658	1,415	8,693	27,766
17	2,967	6,384	1,105	2,561	9,961	9,351	1,015	2,561	12,927
18	2,552	7,097	1,201	9,433	17,731	9,650	1,201	9,433	20,283
Total	$ 52,783	$152,247	$ 25,126	$114,964	$292,337	$205,030	$ 25,126	$114,964	$345,120

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

March 19, 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 - DEFENSE SERIES F

Number of Units and Percent of Dollar Volume
by Denominations and by Months
May 1941 - January 1942

Month	Denomination							Issue Price (in millions)
	$25	$100	$500	$1,000	$5,000	$10,000	Total	
	Number of Units (in thousands)							
1941-May	-	6.2	3.4	12.0	2.5	4.4	28.5	$ 52.8
June	-	5.6	2.4	7.2	1.2	1.5	17.9	22.5
July	-	8.4	3.6	10.0	1.5	1.6	25.2	27.2
Aug.	-	7.1	2.9	7.0	1.1	1.0	19.1	18.2
Sept.	-	8.0	2.9	7.5	1.1	1.1	20.5	19.4
Oct.	-	9.9	3.4	9.0	1.4	1.1	24.9	22.3
Nov.	-	9.0	3.0	7.6	1.0	.9	21.6	18.2
Dec.	-	25.0	7.4	18.2	2.8	2.7	56.1	48.8
1942-Jan. *	6.8	40.3	10.7	22.1	3.2	4.0	87.0	64.9 *
Total	6.8	119.3	39.7	100.7	16.0	18.5	301.0	
Issue Price (in millions)	$ 0.1	$ 8.8	$ 14.7	$ 74.5	$ 59.1	$136.9		$294.2
					Adjustment to deposits			- 9.0
					Deposits with the Treasurer of the United States			$285.2
	Percent of Dollar Volume							
1941-May	-	0.9%	2.3%	16.8%	17.6%	62.4%	100.0%	
June	-	1.8	4.0	23.8	19.6	50.8	100.0	
July	-	2.3	4.9	27.3	21.0	44.5	100.0	
Aug.	-	2.9	5.9	28.6	22.7	39.9	100.0	
Sept.	-	3.0	5.5	28.6	21.4	41.5	100.0	
Oct.	-	3.2	5.7	30.0	23.7	37.4	100.0	
Nov.	-	3.6	6.2	31.0	21.2	38.0	100.0	
Dec.	-	3.8	5.6	27.7	21.2	41.7	100.0	
1942-Jan.	0.2%	4.6	6.1	25.2	18.3	45.6	100.0	
Total	0.1%	3.0%	5.0%	25.3%	20.1%	46.5%	100.0%	

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

March 19, 1942.

Source: Tabulations by the Division of Loans and Currency from an audit of original stubs.

Note: All figures have been rounded and will not necessarily add to totals. Amounts do not agree with released sales figures which are on the basis of deposits with the Treasurer of the United States.

* Incomplete. Deposits were $77.6 millions.

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UNITED STATES SAVINGS BONDS - DEFENSE SERIES G

Number of Units and Percent of Dollar Volume
by Denominations and by Months
May 1941 - January 1942

Month	Denomination						Issue Price (in millions)
	$100	$500	$1,000	$5,000	$10,000	Total	
	Number of Units (in thousands)						
1941-May	32.3	15.0	57.5	10.8	18.9	134.5	$ 311.5
June	20.3	9.4	33.4	5.4	7.4	76.0	141.1
July	25.2	13.5	43.9	6.8	7.5	97.0	162.9
August	20.1	9.7	31.3	4.9	5.5	71.5	117.9
September	19.5	8.6	29.3	4.6	5.2	67.2	111.0
October	23.3	10.7	34.0	5.2	5.8	78.9	125.2
November	20.8	9.3	29.3	4.4	4.7	68.4	104.6
December	55.0	24.4	60.6	8.1	8.0	156.1	198.7
1942-January *	65.8	32.2	71.9	9.3	13.3	192.4	273.8 *
Total	282.3	132.8	391.1	59.5	76.3	942.1	
Issue Price (in millions)	$ 28.2	$ 66.4	$391.1	$297.7	$763.2		$1,546.7
				Adjustment to deposits			- 46.3
				Deposits with the Treasurer of the United States			$1,500.4
	Percent of Dollar Volume						
1941-May	1.0%	2.4%	18.5%	17.4%	60.7%	100.0%	
June	1.4	3.3	23.7	19.2	52.4	100.0	
July	1.6	4.1	27.0	21.0	46.3	100.0	
August	1.7	4.1	26.5	21.0	46.7	100.0	
September	1.7	3.9	26.4	20.9	47.1	100.0	
October	1.9	4.3	27.1	20.6	46.1	100.0	
November	2.0	4.5	28.0	20.8	44.7	100.0	
December	2.8	6.1	30.5	20.4	40.2	100.0	
1942-January	2.4	5.9	26.3	16.9	48.5	100.0	
Total	1.8%	4.3%	25.3%	19.3%	49.3%	100.0%	

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

March 19, 1942

Source: Tabulations by the Division of Loans and Currency from an audit of original stubs.

Note: All figures have been rounded and will not necessarily add to totals. Amounts do not agree with released sales figures which are on the basis of deposits with the Treasurer of the United States.

* Incomplete. Deposits were $315.6 millions.

March 19, 1942
4:07 p.m.

HMJr: Hello.

Operator: Mr. Paul.

HMJr: Hello.

Randolph Paul: Hello.

HMJr: Randolph. Hello.

P: Yeah.

HMJr: Cooper says he'll take it on, but he wasn't very enthusiastic; but he'll take it on.

P: Then I'm to call him.

HMJr: Yeah, when you get back.

P: Yeah.

HMJr: He said he'll see you either Friday or Saturday.

P: All right.

HMJr: Okay.

P: Yeah. Tell me - can you tell me just a little more or can't you talk now?

HMJr: What?

P: About this thing you talked about this morning. I'm going to see Ernst later today.

HMJr: No, I gave you all that I knew.

P: Yeah.

HMJr: I - they gave it to me in fifteen seconds.

P: Yeah.

HMJr: I gave you all that I knew.

P: All right. I'll see what I can find out. I think there might be some misunderstanding about it, I don't know.

HMJr: Okay.

P: Well, I'll see what I can find out and report to you in the morning.

HMJr: Thank you.

P: Okay.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

March 19, 1942

TO THE SECRETARY:

In reply to your memorandum of March 18th regarding the Chinese loan, revised Article II as submitted by the State Department was handed to Dr. Soong in New York on Friday, March 13, by Mr. Fox. Dr. Soong cabled this revised draft to Chungking on Saturday and asked for an immediate reply.

I talked with Soong late Tuesday evening regarding the matter and he said he had not yet received an answer but that he had sent a wire off that day, asking for immediate reply as he wanted to close the agreement this week.

* * * * * *

Dr. Soong just telephoned me that he has received a reply to his cable and he is bringing it in this morning to discuss with me.

DWB

ARTICLE II.

As a manifestation of the cooperative spirit which underlies the common war effort of China and the United States, appropriate officials of the two Governments will confer from time to time regarding technical problems which may arise in connection with the financial aid herein provided and will exchange information and suggestions regarding ways and means of most effectively applying these funds toward achieving the purposes which are envisaged by the two nations.

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

March 19, 1942

CONFIDENTIAL

Dear Mr. Bell:

Confirming our conversation, I have to inform you that I have received a reply from the Generalissimo with reference to your proposal to re-insert Article II of the proposed loan agreement in a modified form.

The Generalissimo states that after carefully consulting his colleagues he feels that even in the modified form Article II is generally construed as limiting the freedom of action in the use of the proceeds, and would therefore adversely affect the public response to bonds, savings deposits and other measures that are to be based on the loan.

In addition, among his soldiers, who have been tremendously heartened by the generous and unconditional assistance as revealed in the exchange of messages between the President and himself, the inclusion of Article II would create the impression that the terms are not as clear-cut as they envisaged.

The Generalissimo therefore feels that the civilian and military reactions are such as to justify his request that Article II be dropped completely, and I shall be grateful if you will transmit his message to your colleagues for their consideration.

With kind regards,

Yours sincerely,

T. V. Soong

Mr. D. W. Bell, Under Secretary of the Treasury
Treasury Department
Washington, D. C.

March 19, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in Mr. Bell's office
March 19, 1942
2:30 p.m.

Present:

For Treasury: Mr. D. W. Bell
Mr. White
Dr. Viner
Mr. B. Bernstein
Mr. Southard
Mr. Friedman

For State: Mr. Hornbeck
Mr. Hamilton
Mr. Livesey
Mr. Luthringer

Meeting was called to discuss reply received from Dr. Soong regarding the alternative of Article II.

Mr. Bell said that the Secretary wanted to sign the Agreement as soon as possible and was prepared to do so unless the State Department felt strongly about the matter.

The State Department's position was given by Mr. Hornbeck, who said that the matter had now become a diplomatic issue. Mr. Hornbeck said that the State Department representatives had just come from a meeting with Mr. Welles and that he was talking under instructions. If the Chinese position was accepted, Mr. Hornbeck said it would mean trouble in the future between the Governments of China and the United States. He was under instructions to propose an exchange of letters which would be supplementary to the agreement and which would achieve basically the aims of the proposed Article II. He said that to accept the Chinese position would be establishing a precedent of China's laying down terms to us and that the United States could not let China get away with this.

Question was raised as to whether Dr. Soong's letter of March 3 could be considered a commitment to consult or exchange information. Mr. Hornbeck replied that it only committed Dr. Soong, or at the most, the Generalissimo.

A Treasury representative pointed out that there has been some change in the military situation since the negotiations first began. Mr. Hornbeck then quoted from dispatches from Ambassador Gauss commenting on each as to how they indicated that the Chinese have been taking an increasingly firmer attitude.

Mr. Hornbeck went on to say that we were in our present position because we had shown weakness in the past. The Chinese were led to believe that if they stood firm we would retreat from our position. A Treasury representative said that the Secretary had definitively given Dr. Soong the impression before Congress acted that we were concerned about the uses of the financial aid and pointed out that the Secretary had even considered doling out the money for specified purposes.

Dr. Viner expressed his complete opposition to the State Department's view. Mr. Hornbeck said that he had not mentioned Treasury when he spoke of weakness being shown. A Treasury official said that he was glad that Mr. Hornbeck had clarified this point and went on to stress the fact that at every step the negotiations had been cleared with the State Department.

The President's message to the Generalissimo and the Generalissimo's reply accepting the loan without conditions were discussed and read. Treasury officials said the President's message set the desired tone of the negotiations. When State Department officials were asked who had drafted the President's message they replied that it was hastily drafted by the State Department.

The period before Congressional approval of the financial aid was reviewed by Dr. Viner, who pointed out that every one had been surprised by the generous spirit shown by Congress and the ease with which the suggested aid went through.

The possibility of an exchange of letters was then discussed. A Treasury official pointed out that the State Department was aiming at an exchange of letters which would become part of the Agreement and while he was saying this Mr. Hamilton of the State Department nodded his head in Agreement. Mr. Hornbeck made it clear that he was thinking of an exchange of letters which would practically do what it had been hoped

Article II would accomplish. Mr. Hornbeck said that it was unfortunate that either Soong or Kung was probably advising the Generalissimo since the Generalissimo would not have taken the position that he had taken by himself. The point was then made that it was to be expected that the Generalissimo would be advised by his Finance and Foreign Ministers.

Mr. Hornbeck then went on to give a review of the political situation. He said that: In 1937, the Chinese went to war with Japan, or Japan went to war with China, and the Chinese chose to resist the Japanese. It was a war of their own choice. The Chinese were not fighting for civilization, but for themselves and the United States had steadily supported China. Not until 1939, when we told them so, did the Chinese begin to say that they were fighting for civilization. Although we had common enemies our wars were different. We happened to be on the same side, fighting against the same enemy. China was trying to make out that we owed her something. We do not owe her anything. In December they had asked for a loan, and the money had been voted as such, and not for a gift. In only three and one-half months they had changed their position so markedly.

At this point a Treasury official asked "where do we go from here?" Another Treasury official said that it was up to the State Department how far we could go with the Chinese Government. Mr. Hornbeck said that this was not a question of relations between departments but of relations between two Governments, the United States and China. A Treasury official commented that he had always believed the State Department considered foreign policy its exclusive responsibility. Another Treasury representative asked the State Department to draft the letters suggested. Mr. Hornbeck then said that the Chinese, by taking their position, were denying that we had an interest in the use of the funds. Dr. Viner responded that we were telling the Chinese Government by our insisting on the contents of Article II that they were a second-rate Government, and that we could not trust them with the intelligent use of the funds. Mr. Bell expressed the view that it was an issue that the President would have to decide.

The question of the delay in making the agreement was discussed, the point being made by Mr. Hornbeck that the delay was caused by the Chinese, while Treasury representatives took the position that, whoever the cause, continued delay was bound to have an ill effect in Chungking.

Mr. Hornbeck said that whatever was done must be done in such a manner that could be referred to in the future by both the United States and China, and that, if there was nothing specific to refer to, it was not worth doing.

Treasury officials pointed out that Foreign Funds Control could be used in the case of extraordinary changes in the China picture in the future, and the question was asked what could be drafted that would really give us anything more. The point was then made by Treasury officials that our position had become steadily weaker as we had tried to get a consultative article accepted by the Chinese, and that we had been in a much stronger position with respect to control over the use of the funds before the last exchange of letters.

Mr. Hornbeck suggested that Mr. Hamilton and Dr. Viner draft a letter along the lines outlined by Dr. Viner.

The possibility of bringing the matter before the Cabinet was discussed. The necessity of discussing the problem first with the Secretary was made clear and Mr. Bell said that the Secretary might want to take the matter up with the Cabinet tomorrow and Mr. Welles should be prepared for such an eventuality.

It was agreed that Mr. Hamilton and Dr. Viner should draft possible letters which could be given to the Secretary and which might be taken up to the President.

I. S. Friedman

March 19, 1942

Harry White

Secretary Morgenthau

Please talk to me about this.

Copy of incoming also
sent to Bell -

White spoke
to Hiss 3/21/42 -

T. White
B118
L. M.

THE WHITE HOUSE
WASHINGTON

March 19, 1942

TO THE SECRETARY OF THE TREASURY:

FOR HIS INFORMATION.

COPY

THE WHITE HOUSE

Washington

March 18, 1942

My dear Mr. Administrator:

I have your memorandum of March 18 wherein you refer to the request of the Chairman of the Senate Committee on Education and Labor that you appear before that Committee to testify on S.2295, "A Bill, To provide for the termination of the National Youth Administration and the Civilian Conservation Corps."

You state that it would be desirable to have my views regarding this proposed legislation to place before the Committee. In this connection, I wish to call your attention to our conversations on other proposed legislation affecting the youth agencies. My opinion as expressed in those conversations has not changed.

I feel that the youth agencies have a definite place in the all-out war effort. The 1942 program of the National Youth Administration to train approximately 600,000 youth for war industries and for other essential work will be a definite and necessary contribution to our expanding labor requirements. The Civilian Conservation Corps work on Army reservations is needed to prepare those reservations for full utilization. Likewise, the remaining projects of the Corps which are now limited to those essential to the various phases of our war effort and so located as to provide protective services in vital areas should not be discontinued at this time.

It is unfortunate that it is not generally known that the employment of these youth in some cases releases soldiers for active duty and in others involves tasks which would require the employment of adult civilians. I also feel that it should be made clear to all our citizens that by far the greater number of those on the rolls are of pre-military age and that the training which they receive is preparing them for such service as they may be called upon to perform when they become of military age.

In view of the above, I cannot agree with those who take the position that these agencies should be terminated and, accordingly, you are advised that S.2295 does not meet with my approval.

Very sincerely yours,

/s/ FRANKLIN D. ROOSEVELT

Honorable Paul V. McNutt,
Administrator,
Federal Security Agency,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1942

TO Secretary Morgenthau

FROM Mr. Kuhn

Here are articles from the labor press about the tax program. You will notice that the New Masses has come out in our favor, which means that the Communist party line in this country will be on our side! This should put a stop to critical articles such as the United Electrical Workers have published.

Most of the labor papers have been waiting with their comments until the tax committees of the C.I.O. and the A.F. of L. have taken their stand. The resolutions of the two tax committees are included with this batch of comments. You will see that the A.F. of L. opposes us on taxing outstanding State and municipal bonds.

J.K.

MEMORANDUM

March 19, 1942.

TO: The Secretary

FROM: Mr. Sullivan

RE: Assignment of Public Finance man to Governor Tugwell, Puerto Rico.

Mr. Eugene Bland of the National Resources Planning Board and I have discussed this problem. He is apparently the contact man for Governor Tugwell.

Upon Mr. Blough's recommendation I offered to Bland the services of Russell Hinckley, who is now an employee of Dr. Groves at a salary of $5,600. I explained that this would have to be on a reimbursable basis. He said he did not know whether Governor Tugwell expected to reimburse us for the services of this man, but that he would report to the Governor that we are making such an offer and would advise us of his reply.

I explained to Mr. Bland that because of the war and the heavy load of the tax program, and further, because of the reduction the Appropriations Committee made in our appropriation for the particular project on which Mr. Hinckley is employed, we do not feel that it will be possible for us to lend his services without reimbursement.

BRITISH AIR COMMISSION
1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE
REFERENCE NO.

With the compliments of British Air Commission
who enclose Statement No. 25 - Aircraft Despatched
- for week ended March17, 1942.

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

March 19, 1942.

MOST SECRET

STATEMENT NO. 25

AIRCRAFT DESPATCHED FROM THE UNITED STATES DURING WEEK ENDED MARCH 17, 1942

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CAN.
LL					
racobra	U. K.	U.K.	58		
ING					
17E	U.K.	U.K.		1	
SNA					
T 50	Canada	Canada			66
SOLIDATED					
24D	U.K.	U.K.		2	
iberator II					1
GLAS					
ansport (used)	Middle East	Port Sudan		10	
TISS					
tyhawk IA	Australia	Melbourne	18		
"	U.K.	U.K.	2		
"	Middle East	Port Sudan	6		
20	U.K.	U.K.		1	
KHEED					
son III	Australia	Melbourne	23		
udson AC 5	Canada	Canada			125
udson AC 151	U.K.	U.K.		37	
odester AC 53	Middle East	Port Sudan		5	
ransport (used)	Middle East	Port Sudan		21	
ture Bomber	U.K.	Canada en route		1	
NN MARTIN					
timore	Middle East	Port Sudan	10		
FCHILD					
9	U.K.	U.K.	8		
TH AMERICAN					
tang	U.K.	U.K.	10		
ARMAN					
27	Canada	Canada			1
TOTALS			135	78	193

* These figures represent cumulative totals of freight delivered Lend Lease Aircraft which have not previously been incorporated. Future lists will show weekly deliveries in the normal manner.

British Air Commission
March 19th, 1942.

C
O
P
Y

DEPARTMENT OF STATE

WASHINGTON

March 19, 1942

In reply refer to FF
840.51 Frozen Credits/5571

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of the paraphrase of telegram no. 1487, dated October 14, 1941, from the American Embassy at Rio, concerning the refusal of the Argentine Central Bank to pay to a third party an amount of $1,200,000, the purchase price of the S.S. Olovsborga received by Finland from Lloyd Brasileiro.

There is also enclosed a copy of telegram no. 670 dated March 3, 1942, from the American Embassy at Rio, concerning an inquiry received from Herman Hollander, New York City, by the Bank of Brazil, as to whether or not the 19,000 contos resulting from the sale of the above-mentioned ship can be used for the payment of certain commodities for shipment to the United States.

Enclosures:

1. Copy of paraphrase of telegram no. 1487, October 14, 1941.
2. Copy of telegram no. 670, March 3, 1942.

PARAPHRASED TELEGRAM

FROM: Rio de Janeiro

DATE: October 14, 1941

NO.: 1487

Information from a reliable source has come to the Embassy that the Finnish freighter Olovsborga, presently at Montevideo, has been bought by the Lloyd Brasileiro for $1,200,000. The vessel will be paid for in dollars, milreis, and Argentine pesos. The Finnish Minister at Rio de Janeiro suggested that payment be made to a third party but the Argentine Central Bank refused and delivery is held up pending settlement of this point.

COPY:FF:BM

ELP
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Rio

Dated March 3, 1942

Rec'd 10:55 p.m.

Secretary of State,

Washington.

670, March 3, 6 p.m.

Bank of Brazil has received a telegram from Herman Hollander, New York City, inquiring whether the 19,000 contos resulting from the sale of the Finnish ship Olovsborg to the Lloyd Brasileiro (my telegram 1487, October 14, 1941, 3 p.m.) can be used for payment of hides, skins, diamonds, cotton, for shipment to the United States.

The funds are on deposit in the Bank of Brazil in the name of the Finnish Legation here. The Bank of Brazil will inform Hollander that he must obtain a license from the United States Government. The bank is not interested in accepting the proposal.

Inform Treasury.

Caffery

KLP

Copy:vw:3-20-42

March 19, 1942.

Mr. Livesey

Mr. Dietrich

Will you please send the attached cable to the American Embassy, Chungking, China:

"To Adler from Fox."

TO AMLEG, CHUNGKING, CHINA

FROM FOI

REFERENCE TO TF-21 DATED MARCH 14, 1942.

AMENDMENT TO GENERAL LICENSE 42 ISSUED FEBRUARY 23, 1942, UNBLOCKS ACCOUNTS OF CHINESE NATIONALS RESIDING IN THE UNITED STATES ON FEBRUARY 23, 1942, PROVIDED THE ACCOUNTS OF SUCH CHINESE NATIONALS WERE NOT BLOCKED FOR ANY REASON OTHER THAN DOMICILE, RESIDENCE, OR CITIZENSHIP IN A BLOCKED COUNTRY SINCE THE EFFECTIVE DATE OF THE ORDER. THE PERSONAL ACCOUNTS OF CHINESE OFFICIALS WHO RESIDED IN THE UNITED STATES ON FEBRUARY 23, 1942, ARE NOW UNBLOCKED UNDER GENERAL LICENSE 42, THE OFFICIAL ACCOUNTS OF SUCH CHINESE OFFICIALS HAVING BEEN UNBLOCKED UNDER GENERAL LICENSE 60.

THERE IS NO REQUIREMENT AS TO DATE WHEN RESIDENCE MUST HAVE BEGUN. CHINESE NATIONALS WHO TAKE UP THEIR RESIDENCE IN THE UNITED STATES AFTER FEBRUARY 23, 1942, MAY MAKE SPECIAL APPLICATIONS TO HAVE THEIR ACCOUNTS UNBLOCKED.

FOR YOUR INFORMATION, GENERAL LICENSE 42 REQUIRES THE BLOCKING OF ACCOUNTS OF ANY PERSONS WHO ENTER A BLOCKED COUNTRY AFTER FEBRUARY 23, 1942.

IEP/EVS - 3/19/42

COPY: TW: 3-19-42

TELEGRAM SENT

NMC
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

March 19, 1942

6 p.m.

AMEMBASSY,

CHUNGKING (CHINA) VIA N.R.

191

To Adler from Fox.

QUOTE. Your TF-21, March 14.

Amendment to General License 42 issued February 23, 1942, unblocks accounts of Chinese nationals residing in the United States of February 23, 1942, provided the accounts of such Chinese nationals were not blocked for any reason other than domicile, residence, or citizenship in a blocked country since the effective date of the order. The personal accounts of Chinese officials who resided in the United States on February 23, 1942, are now unblocked under General License 42, the official accounts of such Chinese officials having been unblocked under General License 60.

There is no requirement as to date when residence must have begun. Chinese nationals who take up their residence in

-2- #191, March 19, 6 p.m., to Chungking

residence in the United States after February 23, 1942, may make special applications to have their accounts unblocked.

For your information General License 42 requires the blocking of accounts of any persons who enter a blocked country after February 23, 1942. END QUOTE.

WELLES
ACTING
(FL)

FD:FL:BMcB

DM
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Ciudad Trujillo
Dated March 19,1942
Rec'd 7:12 p.m.

Secretary of State,

Washington.

96, March 19, 5 p.m.

Local Axis personnel departed today for New York on steamship NYASSA bearing safe conduct of this mission in respect of their persons and baggage. The following individuals were embarked: Mario Porta, Italian Minister; Ethel Porta, wife of Italian Minister; Alberto Villa, employee of Italian Legation; Lidia Villa, wife of Alberto Villa; Paola Maria Villa, daughter of Alberto Villa; Hans Felix Rohrecke, German Minister; Ursula Rohrecke, wife of German Minister; Hermann Barkhausen, German Consul; Nelly Barkhausen, wife of German Consul; Joachim Barkhausen, son of German Consul; August Lehnert, Consular secretary at German Legation; Karl Wilke, servant of German Legation; Karl Hertel, under the protection of German Legation.

The following sums are being taken from the Dominican Republic by the persons indicated under the authorization of the Foreign Office: German

Minister

-2- #96; March 19, 5 p.m.from Ciudad Trujillo

Minister $2500; Lehnert $800 to $1000; Barkhausen $1500; Hertel $250, Italian Minister $5000; Villa $1500.

LAWTON

KLP

EJ

PLAIN

Quito

Dated March 19, 1942

Rec'd 10:31 p.m.

Secretary of State,

Washington.

216, Nineteenth.

FOR HARRY WHITE FROM GLASSER.

I hope Friedman will come as soon as possible. My family must leave before April 15 but I shall await him and remain in Quito as long as is advisable to assure Friedman a successful start.

LONG

JRL

March 19, 1942

Mr. Livesey

D. W. Bell

Will you please send the following telegram to the American Consulate General, Capetown, South Africa, as reply to its No. 31, March 17, 3 p.m.

"From Treasury.

1. Please have consular officer present at time South African Reserve Bank wraps currency to observe that halves, with a copy of list enclosed, are separately packaged and that the packages are sealed. Upon receiving the bank's statement that the currency has been cut in half, that the name of the bank appears on each half of the currency, and the amount of currency in each package, the consular officer can then issue to the bank a receipt for the currency. The receipt given by the consular officer should stipulate that the currency is subject to count, verification, and examination.

2. The Consulate General is authorized to store the sealed packages in the vault of the South African Reserve Bank pending delivery to the Post Office just prior to the sailing of the carrying vessel.

3. It is not necessary that the currency be shipped by diplomatic pouch.

4. All other instructions contained in telegram No. 11, February 9, 9 p.m., should be followed."

Note to Mr. Livesey: I should like to bring to your attention that telegram No. 11, February 9, 9 p.m., was addressed to the American Legation, Pretoria, whereas the message to which we are replying was sent by the American Consulate General, Capetown. - F.D.

D:dm 3/19/42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Moscow, Union of Soviet Socialist Republics.

DATE: March 19, 1942, 11 a.m.

NO.: 74.

The following is a secret message.

The shipment referred to in my telegram No. 73 is being made on the Kenya today.

THOMPSON

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 19, 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	£16,000

Open market sterling remained at 4.03-3/4, with no reported transactions.

On the appearance of the Post Office as a buyer of Canadian dollars, that currency continued its recovery, closing at a discount of 12-7/16% as compared with Tuesday's low of 13-3/8%. It was reported that the Post Office purchased as much as 300,000 Canadian dollars, and it was believed that this was in addition to the 500,000 which the Post Office was looking for last Monday.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2369
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	3/16% premium

We sold $1,347,000 in gold to the B.I.S., which was earmarked in B.I.S. account No. 2. Gold in this account is the property of that bank.

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped $323,000 from Mexico to the Federal for its account, 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¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 92

Information received up to 7 A.M., 19th March, 1942.

1. MILITARY

LIBYA. 17th. Enemy activity greatly reduced. Enemy columns now withdrawn from the TMIMI area.

BURMA. Enemy parties are reported to have landed from boats on 15th South of MONYO and to have withdrawn later.

2. AIR OPERATIONS

MEDITERRANEAN. 17th/18th. Swordfish obtained one torpedo hit on a 2,000-ton merchant vessel east of TRIPOLI. The vessel was left on fire. One of our aircraft is missing. Another attack was made on two escorted north bound vessels south of LAMPEDUSA. The larger one of about 7,000 tons was hit by one and possibly two torpedoes.

AUSTRALIA. 16th. 14 enemy bombers attacked PORT DARWIN aerodrome. About 100 bombs were dropped, causing considerable damage to buildings.

BRITISH MOST SECRET

(U.S. SECRET)

WEEKLY No. 98

Following is supplementary resume of operational events covering the period 12th to 19th March, 1942.

1. NAVAL

The main Japanese Fleet is presumed to be in home waters. Nearly all its Cruisers and light craft have been detached to other areas. Several units of the Southern Fleet appear to have returned to JAPAN and the remainder are in the Malayan Area. A Naval force is consolidating the various bases established or taken over in the JAVA SEA area. The only unit known to be operating in the PHILIPPINES area is one Flotilla of 4 Destroyers. The operations in NEW GUINEA are being carried out by the 4th Fleet whose strength, with reinforcements from the main Fleet, estimated to be 4 8-inch Cruisers, 2 6-inch Cruisers, 2 5.5 Cruisers, 2 Seaplane Carriers, 2 Aircraft Carriers, 8 Destroyers and 9 Submarines. But considerable damage is reported to have been inflicted on this Fleet by Allied Aircraft between 10th and 20th March. 4 Cruisers and 3 Destroyers are reported to have been sunk but individual ships have not been identified. Following French Naval units are believed to be in MADAGASCAR: Two Armed Merchant Cruisers, one Sloop, one Naval Tanker, 6 or 7 Submarines.

Shipping losses were again heavy owing to submarine attacks in the West Atlantic and West Indies where the main U-boat concentration was located, out of 22 ships attacked, 20 were in these localities. Other submarines were operating in the North-Western approaches, off ICELAND and off LIBERIA. During the week ending 18th, 887 ships were convoyed, during February 3,648 ships were convoyed of which only 8 were sunk.

Imports into GREAT BRITAIN during week ending 14th amounted to 332,000 tons including 132,000 tons of oil.

MILITARY

RUSSIA. The Russian efforts to destroy the encircled German forces in the STARAYA RUSSA area continue. On many other sectors the Russians are exerting great pressure under difficult conditions, and losses are likely to have been considerable on both sides. Although territorial gains have been negligible, it is important that the Germans have been given little respite.

NORWAY. There have been further indications of the strengthening of coastal defences and it seems likely that from five to ten new coast-defence battalions have moved into the country. The main garrison still remains at eight Divisions.

BURMA. Our recent limited offensive in the SHWEGYIN area was carried out in order to create a diversion while our main forces were withdrawing northwards from RANGOON. Heavy casualties were inflicted during the operation after which our force withdrew to its former positions as pre-arranged.

SUMATRA. The Japanese appear to be completing the occupation of the whole Island, whilst in the NEW GUINEA area they are extending their operations eastwards.

3. AIR OPERATIONS

WESTERN FRONT. Our bombers could only operate on two nights when a total of 273 tons of H.E. and several thousand incendiaries were dropped. Main objectives were COLOGNE and KIEL. Enemy activity against this country was slight and mainly confined to coastal operations. Although our fighter escorts to day-bombers met large numbers of enemy fighters over the CALAIS and DIEPPE areas, the German fighter force in Northern France seems to be being used with great economy.

MALTA. The Island was heavily raided by a total of at least 500 aircraft. Aerodromes were cratered and several aircraft on the ground were destroyed and others damaged. Our fighters were hampered by partially unserviceable aerodromes. Shipping amounting to about 9,000 tons was damaged by our Naval Torpedo aircraft.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE

HULS. Although the last attack on the Chemical Works was on 28th/29th December, photographs taken on 9th March show that the plant is not yet fully active and several cooling towers are not operating. Five gas holders have been removed and new pipe lines are being constructed.

KIEL. A large depot ship was hit and sunk on 27th/28th February.

POISSY. Photographs taken during the attack on Matford Works show seven hits on the main building, one on a subsidiary building and four among parked lorries.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Military Report: The Unknown British Victory

Summary

1. It only has become clear long after the event, that the repulse of last year's German spring offensive against Moscow must rank with the Battle of Britain as an outstanding Allied victory.

2. Hitler has admitted, and Churchill's analysis agrees, that after the German victory over France, menacing Russian military concentrations on Germany's eastern border tied down a decisively large portion of the German air force. The fraction of the air force available was not strong enough to overwhelm British resistance and it was defeated in the attempt during the Battle of Britain, August-September, 1940.

3. Hitler then had two choices left.

A. To defeat England by throwing in all his naval resources in an attempt to smash her communications;

or B. To crush rapidly the Russian military forces, to free his entire army and air force for an invasion of England.

4. In the spring of 1941, Germany attempted to carry out "Plan A" by using everything available, including all the major units of her navy. British shipping losses mounted, but with the American decision to patrol the western Atlantic and the sinking of the Bismarck, Hitler clearly perceived "Plan A" had failed. The only hope for an early German victory remained in "Plan B", the invasion of Russia. Thus the repulse of the German shipping offensive must be counted one of the greatest Allied victories of the war.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Military Report: The Unknown British Victory

By analyzing the information which has become available only long after the event, it becomes evident that a year ago the British won one of their greatest victories of the war - a victory which ranks with the Battle of Britain of September, 1940, but which has gone almost unrecognized. This was the defeat of the Axis all-out offensive against the British sea-borne lines of supply in the spring of 1941. The repulse of this Axis threat by three months of hard fighting was obscured by the day-to-day spectacular developments of the invasion of Yugoslavia and Greece. Yet this British victory with American help was directly responsible in forcing the Germans to invade Russia. It may well be that future historians will name this battle as the turning point of the war.

The events leading up to the Axis offensive against shipping in the spring of 1941 are now fairly clear. After the fall of France in June, 1940, Hitler offered peace terms to the British. In spite of the fact that the small British army had been practically stripped of weapons (there being, for example, less than 100 tanks left in England after Dunkerque), the British refused to make peace with Hitler. The Nazis then began to prepare in their thorough, methodical way, for an invasion of England.

At this point, a distraction arose. What happened can best be described in the words of Hitler when he reviewed Soviet-German relations on June 22, 1941, when his troops crossed the Russian frontier.

Hitler declared:

"While our soldiers from May 10, 1940 on, had been breaking Franco-British power in the west, Russian military development on our eastern frontier was being continued to a more and more menacing extent.

"From August, 1940, on, I, therefore, considered it to be in the interest of the Reich no longer to permit our eastern provinces, which moreover had already been laid waste so often, to remain unprotected in the face of this tremendous concentration of Bolshevik divisions.

"Thus there resulted British-Soviet Russian cooperation, intended mainly at the tying up of such powerful forces in the East that radical conclusion of the war in the West, particularly as regards aircraft, could no longer be vouched for by the German high command."

(Emphasis mine, A.M.K.)

Churchill's analysis of the causes of the German invasion of Russia is similar. He said in his speech on June 22, 1941:

"(There is)...one deeper motive behind his (Hitler's) outrage. He wishes to destroy the Russian power because he hopes that if he succeeds in this he will be able to bring back the main strength of his army and air force from the east and hurl it upon this island, which he knows he must conquer or suffer the penalty of his crimes.

"His invasion of Russia is no more than a prelude to an attempted invasion of the British Isles."

We can see now that what happened in the summer of 1940 was that the concentration of Russian troops and airplanes on the German eastern frontier pinned down a decisively large portion of the German army and air force. Hitler, nevertheless, attempted to smash the Royal Air Force as a preliminary to invasion, with the remaining available fraction of his air force. During the Battle of Britain in August and September, 1940, the Royal Air Force completely defeated this attempt.

The Germans in the fall and winter of 1940-41 were, therefore, confronted with two alternative plans which might win the war. With American airplanes flowing into England, even if in small numbers, and with the experience of the Battle of Britain behind him, the possibility of destroying the British Air Force with a part of the German Air Force could not be counted on. Hitler's choice then was between:

A. An attempt to defeat England by a policy of blockade, using his naval forces which were completely available for this purpose.

or B. An attempt to destroy the Russian threat and then, as Churchill said, "bring back the main strength of his army and air force from the east and hurl it" upon England.

Probably the decision was made to give "Plan A" a good try and if it failed, to adopt "Plan B". The defeat of "Plan A" by the British with American help in the spring of 1941 left the Germans no alternative but to crush the Russian military forces with sudden surprise attack, if the Germans wished to bring the war to an early end.

As is customary with German offensives, Hitler opened the offensive against British shipping with a speech on February 24, 1941. He announced on that day:

> "Our fight on the sea can begin only just now." "(The Allies)...will know what has been going on. They will know shortly when our new types of submarines are going to be brought into the expanded warfare. They will find out in March and April what German-Italian submarine cooperation will mean to them."

The Germans did give "Plan A" a thorough try. The offensive against shipping went all-out. Increased numbers of submarines preyed on convoys. Long-range bombers were sent out in attacks on shipping. The bulk of the German navy was thrown into the battle. The two battle cruisers, Scharnhorst and Gneisenau, were sent out in March. The Bismarck and a heavy cruiser, Prinz Eugen, were sent out in May. The only major unit of the German navy not in action was the Tirpitz, which may not have been ready yet for operations.

The German offensive did meet with some successes, but judged as a whole, it failed. Shipping losses increased sharply, but not enough to secure decisive results. Sinkings increased from 260,000 gross tons in January to 380,000 in February, to 550,000 in March, and reached the highest point of the war, 650,000 tons in April. Not all of the April losses were due to the German shipping offensive, a large part resulting from the evacuation of Greece. In May, in spite of

the evacuation of Crete, losses fell to 520,000 tons; in June, 420,000 tons were lost and, with the Russian campaign in full swing, in July, losses fell to a negligible 130,000 tons.

The resources of the British were strained to the utmost to meet the threat. The Scharnhorst and Gneisenau were hunted into Brest in March. Churchill, then, we were informed, over the protests of the R.A.F., concentrated the entire bomber force of the R.A.F. on Brest and successfully kept the two commerce raiders out of action.

The United States helped, perhaps decisively. On March 11, Lease-Lend became law, making completely available American shipbuilding resources to the British. On March 30, several hundred thousand tons of Axis and Danish shipping immobilized in American ports, were seized. And, on April 30, the United States took a step which the Nazis must have realized at once definitely doomed their offensive to failure: President Roosevelt announced that the American navy would patrol the sea in the American defense zones. An immense burden was lifted off the British navy. It could give increased protection to shipping near England. At the same time, Axis submarines had to abandon the western Atlantic as scene of operations, or run the risk of bringing the United States into the war - a risk Hitler was not willing, as yet, to take because of his hopes of an early victorious end to the war.

The German High Command claimed to have destroyed over 1,000,000 tons of shipping in April. If this had actually happened, England would soon have been forced to her knees. That the Germans did not believe their own claims is evidenced by the fact that preparations to put in effect "Plan B", the invasion of Russia, began to be made. On May 10, Hess parachuted to earth in Scotland, undoubtedly bearing peace proposals designed to take England out of the war while Russia was being finished off. The last big bombing raid on England occurred on May 14 and, after that, the German Air Force began to move towards the East. Throughout May, we received reports of the movement of German troops to the Russian frontier. In the third week of May, one last desperate attempt was made against British shipping: the pride of the German navy, the Bismarck, was sent out to attack commerce. The

sinking of the Bismarck on May 27 by the British Navy must have finally convinced the Germans that "Plan A" had failed and that "Plan B", the invasion of Russia, must be tried. Six days later, on June 2, Hitler met Mussolini at the Brenner Pass and undoubtedly informed him of the decision taken. On June 22, German troops crossed the Russian frontier, and "Plan B" was given its trial.

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

March 19, 1942

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

Dear Henry:

The following is a summary of the Weekly General Directive issued by the British Ministry of Political Warfare.

Sincerely,

Bill

William J. Donovan

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Sincerely,

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Policy:

(a) Avoid reference to Japanese threat to Russia in Far East.

(b) Avoid reference to Japanese threat to Madagascar.

Strategy:

(a) Russia: Due to marked Russian progress, in several sectors promising situations seem to be developing. The cutting of the Leningrad-Novgorod railroad increases the threat to German positions south of Moscow. The capture of Dorogobush by parachute troops and partisans provides an important point of origin for Russian advance south of Vyasma. Stress Russian counter offensive continues with increased violence and that German counter attack has not been successful on any part of extensive front. Inquire why German communiques made no reference to the plight of a large portion of the 16th Army cut off and surrounded near Staraya Russa or why they failed to acknowledge Russian capture of elaborately fortified stronghold of Yukhnov.

(b) Far East.

(1) Java. Japanese completed conquest of Java where allied forces received no reinforcements after attack started. Lack of aircraft made it impossible for inferior allied forces to rest or regroup, thus hastening the collapse of organized military resistance.

(2) Timor. Imperial troops are still waging bush warfare in the interior.

(3) New Guinea. Salamoa and Lae now in hands of the Japanese. The Japanese objective is capture of Port Moresby and domination of Torres Straits.

(4) Burma. Our forces are falling back slowly on Prome. The Japanese are also advancing northward toward Toungoo. A Chinese division has arrived just north of Toungoo. Other important Chinese units are in the vicinity of Maymo and moving southward from Lashio.

Propaganda Policy.

We must not permit our European audience to feel that we are discouraged by Japanese successes or we have lost our grip on situation. Demand is for efficiency, equality of sacrifice and ruthless treatment of everyone who acts in a manner contrary to the public interest. We must convince Europe that we are as much a part of that continent as we felt ourselves to be in the dark days of 1940. Our influence on Europeans is dependent upon the conviction we can inspire in them that our thoughts are not overseas in oceans and lands strange to their minds and needs.

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THE WAR THIS WEEK

March 12–19, 1942

Printed for the Board of Analysts

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The Secretary of the Treasury

Coordinator of Information

THE WAR THIS WEEK

Although military activity is by no means entirely lacking, virtually all fronts in the war have entered a period of pause. With the fall of Java, the Japanese are consolidating their position in the Netherlands Indies, preparing to launch a fresh offensive in the Melanesian area, readying their forces for a final test in Burma, and laying a course for the future among the great strategic alternatives which now face them. China is girding for defense and hastening to knit more closely her military relations with the United States. In Australia the Allies are rapidly preparing for the anticipated Japanese attack, and the gravity of the situation has been emphasized by the despatch thence from Bataan of General MacArthur. Finally, India awaits with anxious forebodings the solution which Sir Stafford Cripps is bringing.

The west, too, is passing through a period of anxious pause. The Mediterranean is literally a sea of rumor, with vigorous preparation continuing and early action predicted in one or more of at least three areas. Even the Russian front seems now to have been substantially stabilized, and recent Soviet "drives" appear to be little more than fencing for position before the threatened German counter-offensive begins.

Japanese Strategic Alternatives

During the current pause, it appears particularly appropriate to survey the crucial strategic alternatives which Japan now faces. Five principal areas invite her attack: Melanesia,

Burma, India, Australia, and eastern Siberia (with the possibility of an assault on Alaskan bases always present). Japan lacks resources for simultaneous attack on all: her most serious limitations are in shipping and aircraft.

Current evidence strongly points to quick and probably successful campaigns of limited liability in Melanesia and Burma, which are in a special category. They can be reduced simultaneously, probably quickly, at relatively low cost, and with decisive advantages for the Japanese.

The Conquest of Melanesia

Melanesia (with the essential complementary bases in northern Australia) would give Japan a strong defensive shield for the Indies. Its conquest would make possible interruption of American communication lines to Australia. Melanesia is the essential screen and base for a possible assault on southeastern Australia. The nickel of New Caledonia is important for the Japanese war effort.

The Japanese can make heavy aerial assaults on northern Australian bases: Port Darwin has already been seriously damaged. Landings would probably be less difficult than corresponding operations in Java. With northern Australian bases in hand, operations in the northern islands of Melanesia would be safer than at present. These islands could be taken in order, one by one. Short of New Caledonia the Japanese would probably encounter no difficulties more serious than they have overcome to date.

Current Japanese activity bears out the view that the Melanesian shield is their immediate objective. Port Moresby has been repeatedly bombed, a Japanese force is reported to be moving overland from Lae, and a direct attack on Moresby is believed imminent. It is estimated by military observers that Japanese forces in this area have been increased to two

divisions. Port Darwin has also been heavily bombed again, and the two strategic islands off the northern tip of Cape York (Thursday and Horn) have been attacked for the first time.

In the interest of interrupting Allied supply lines, it is possible that the Japanese might attempt to extend the Melanesian shield either to New Zealand or eastward to the important strategic centers at Suva, in the Fiji Islands, and Tutuila Island, in the Samoan group. A move in this direction would keep Japanese operations relatively close to long-prepared bases in the Marshall Islands. If successful, it would thrust the Allies back upon the Free French Society Islands, or perhaps force our lines to Australia to skirt the southern Pacific in a gigantic semi-circle, in which case the ferrying of bombers would be impossible and sailing time to Australia would be nearly doubled.

The Conquest of Burma

Japan's objective in Burma is to cut the last practicable land route from India to China. That step would isolate China from Anglo-American supply, except for the undeveloped possibilities of supply by air. Japan hopes thus to win peace with China through the appeasers in Chungking. China's armies now hold 500,000 Japanese troops in China, and peace would release a large part of these for action elsewhere. The increasing number of Americans serving on Chiang's staff, however, would hardly indicate that the Generalissimo himself envisages appeasement, even if China is isolated.

Japan can send large reinforcements into Burma, if needed. Military observers have already revised upward from two to six their estimate of the number of Japanese divisions operating in Burma (with two air organizations of 300 planes each).

The Japanese are reported to have organized substantial units of a "Free Burma Army" (of doubtful value), and fifth column activities and sabotage are said to be hampering the British.

Newspaper reports, however, suggest that the British are now being steadily reinforced by Chinese troops, equipped with lend-lease arms. The British have taken up positions for the defense of Mandalay along a line which is roughly an extension of that already held by the Chinese—Tharrawaddy-Toungoo-Southern Shan States. Here a lull in the fighting probably represents a considerable reorganization and reinforcement on both sides.

India as a field for conquest

India would be an easier conquest than Australia. But India has much less to offer the Japanese. India's resources are not essential to Japan's war effort. India is a less attractive Allied base than Australia; hence Japan has less reason to deny it to the Allies. The conquest of India would dissipate Japan's limited resources, more needed elsewhere. Japan's extended lines of communication might be cut by an Allied counter-offensive in the Singapore area. If Japan wins the war, she can probably acquire India with relative ease. For the present then India is probably to be viewed as an objective of secondary rank.[1]

The Japanese will, however, doubtless seek limited objectives in the Indian strategic area. Japanese submarines could interfere seriously with shipping in the Bay of Bengal

[1] The journalistic discussion of Japan and Germany "meeting" in India is not to be taken seriously. There is no communications system in the area west of India which would permit overland movement of a German army. As to a naval "meeting," the Japanese would scarcely risk any considerable part of their capital-ship fleet in the Indian Ocean as long as the United States Pacific fleet is in being.

and are already operating out of Penang. An early attack on the Andaman Islands is suggested both by their strategic location and by current activities of the Japanese. Air raids from Burma could be used to demoralize the civilian population and disrupt the economic life of the congested industrial area in and near Calcutta. Even a naval coup, aimed to seize and hold Ceylon, is by no means beyond the realm of possibility.

Australia and Siberia

Both Australia and Siberia appear to be alternatives distinctly more attractive to Japan than India. Australia at the moment is the most important Allied base in the Far East. Australia could be used as a base for the eventual reconquest of the Far East. Japanese interests demand the destruction of this base before it becomes stronger.

Despite the great distances to southeastern Australia and Japan's limitations in shipping and aircraft (see *The War This Week*, March 5–12, pp. 5–7), it is believed very likely that the Japanese will launch an offensive against the main defenses of Australia in the near future. It would be unsafe, however, to attribute too great rigidity to Japanese plans. It is perfectly possible that Japan's own military leaders have yet to make their final strategic choice. Even if that choice is Australia, the discovery of unexpectedly heavy Allied reinforcements on that continent or the incurring of exceptionally heavy losses during the conquest of Melanesia might well prove an effective deterrent. It is obvious that the Japanese cannot afford a series of such devastating losses as those recently visited on them at Salamaua and Lae by American and Australian air forces.

The Australians Ask for MacArthur

The seriousness of the Japanese threat is emphasized by the despatch to Australia of General Douglas MacArthur at the request of the Australians themselves. General MacArthur is to assume command of the land, sea, and air forces of the United Nations in the southwestern Pacific and is to make preparations for the anticipated Battle of Australia.

At the same time Prime Minister Curtin has announced that his Minister of External Affairs, Mr. Herbert V. Evatt, will come to this country to discuss the conduct of the war with American officials. Close observers of Australian politics describe Minister Evatt as one of the brainiest men in the Labor Party and also one of the most ambitious. He is an exponent of an independent foreign policy for Australia and is believed to be responsible for the strong and independent line Australia has taken recently in foreign affairs.

The Siberian Alternative

The fifth Japanese choice is an attack on eastern Siberia. Rumors have been rife that such an attack would be launched in April. And it is to be noted that Tokyo Radio, abandoning previous tactics of avoiding broadcasts directly offensive to the Soviet Union, is now frankly disseminating anti-Bolshevist propaganda. The Tokyo "line" is almost identical with that of Rome and Berlin.

At present the Russian Army is the bulwark of the Allied cause in the Eastern Hemisphere. If the Germans and Japanese can destroy it, they can win the war there. That is the principal argument for a Japanese attack on Siberia. After such a defeat, Allied forces could not afford to leave themselves exposed in Australia: the Japanese could then conquer Australia at a much lower cost than now.

There are other reasons of considerable weight favoring an early attack on Siberia. The maximum Russian confusion would result from a Japanese attack coordinated with a Nazi offensive in the west. Russia would probably be forced to send large reinforcements to the east, and might very well collapse under the strain of a two-front war. The Japanese are drunk with success and may strike out of sheer confidence. The Kwantung Army may take the bit in its teeth and attack at any time—it has been known to do so in the past. Weather conditions also heavily favor a Japanese attack in early spring (see Appendix I).

Japan enjoys other general advantages for a Siberian campaign. It would tax her shipping only very moderately. She already has large stores in Manchuria. Much of her air force could operate against Russia offensively, while based in Japan proper and hence in a position to defend the homeland. Although Russian and Japanese forces on the Siberian frontier are reported to be about equal now, the Japanese have large reserves quickly available in North China and in Japan itself.

And yet, despite all the advantages of an early attack, it seems very likely that the Japanese will wait. On the one hand, a simultaneous attack on Australia and Siberia would place a very severe strain on Japanese resources—above all on her air power. On the other hand, the Japanese will reap important advantages from waiting until the European scene is clarified. If the Germans push the Soviets toward defeat this summer, the Japanese could then attack a weakened Russia and probably free themselves once and for all from this potential menace. Even if the Russians show signs of being successful in Europe, Japan might still (and should logically) attack before this enhanced Russian power materializes in an assault on the Japanese.

China Girds for Defense

Chinese determination to maintain the Burma lifeline has been apparent in a series of conferences between Chiang Kai-shek and other members of the Allied high command. On March 3, the Generalissimo flew from Kunming to Lashio for a secret meeting with General Wavell. Then, after seeing Chinese commanders in Burma, he returned to Chungking, where he conferred with his new chief of staff, General Stillwell. The latter, in the phraseology of the Chinese press report, "received Chairman Chiang's command" to inspect the Burma Road area, and immediately left for Burma by air.

Somewhat earlier, the Generalissimo and Madame Chiang had expressed their appreciation for American help by giving a banquet for the AVG. Madame Chiang, as honorary commander of the AVG, struck the keynote of the evening when she declared, "I want you to leave on my people a true impression of what Americans really are. . . Perhaps I should be very polite and say, 'Boys, you are just grand.'"

Meanwhile Chungking military spokesmen warn that two Japanese divisions are massed in Formosa to invade the Chekiang-Fukien coast. Some Chinese observers foresee a three-way drive from Canton, Hankow, and Formosa to bring under control the highland area within the south China coast, from which the Chinese have long hoped to use American bombers against Japanese shipping and the Japanese islands.

The Japanese Experiment With Germ Warfare

The Japanese are now charged by local Chinese authorities at Ch'ang-te in northern Hunan with experimenting in germ warfare. According to this charge, Japanese aviators dropped packages containing fleas infected with bubonic plague

bacilli over the city. Although the *New York Times* editorially ridicules this story, it cannot so easily be thrown out of court, according to a close observer of the Chinese scene. Dr. Robert Lim of the Chinese Red Cross flew to Ch'ang-te and conducted autopsies confirming the presence of plague. "It is my belief," he stated to the press, "that the Japanese thus far have been experimenting in China and it is my firm conviction that Japan is planning large-scale bacteriological warfare . . . especially when things start going wrong for her."

Those who know Dr. Lim will treat this opinion with respect, our observer continues. His father, Dr. Lim Boon-Keng, was a leading figure in the Chinese community of Singapore, and Robert Lim was educated at Edinburgh and became professor of physiology at the Peking Union Medical College. Since 1937 he has been the outstanding figure in the care of the Chinese wounded.

The Bose Brothers and the Indian Problem

On the Indian front the outcome of Sir Stafford Cripps' mission was impatiently awaited and attention meanwhile was focussed on the eccentric activities of the Bose brothers. The two brothers—Subhas, now in Germany, and Sarat, in Trichinopoly jail—are leaders of the so-called "forward bloc," violently anti-British, and, in the case of Subhas, at least, definitely pro-Axis. The American press stressed the menace they represented as potential fifth column chiefs, especially in the area about Calcutta where Subhas was formerly mayor.

Moderate observers point out, however, that with its leaders in jail the movement has little influence. Nor was there anything specific to prove that the Axis had subsidized the Boses. Furthermore, the effect of Axis radio propaganda,

such as Subhas' recent broadcast from a station near Berlin, is impossible to judge. In the event of an invasion of Eastern Bengal—long a center of disaffection and disturbance—it is possible that the Japanese could stimulate fifth column activity in that region. Such actions would apparently be a reflection of frustrated nationalist ambitions, however, rather than efforts specifically to aid Japan.

Meanwhile, Mohandas Gandhi, after calling on Britain to confess that her imperialism "has been the greatest crime against India," presided over a meeting of the Congress Party Working Committee. As elsewhere in India, the dominant note on this occasion seemed to be anxiety as to the exact content of the plan Sir Stafford Cripps is bringing. As a clue to Cripps' proposals, there may be considerable significance in the Viceroy's statement of his confidence that the princes of India would "not hesitate to forego prerogatives and privileges . . . should they in any way impede India's war effort."

Reviving Fears of Madagascar's Future

While Vichy continues to assure official Washington that it has no intention of yielding control of Madagascar to the Japanese, anxiety over the fate of this strategic outpost of the Indian Ocean area has by no means disappeared. Recent reports of Ger an and Japanese infiltration have merely heightened the concern expressed some weeks ago by General Smuts (see *The War This Week*, Jan. 22–29, p. 14; also Jan. 29–Feb. 5, pp. 9–10).

If Madagascar were to fall under the control of the Axis, giving the enemy a foothold at both ends of the Indian Ocean, the interests of the United Nations would be very gravely menaced. Hostile submarines operating out of Madagascar's two dozen harbors, and bombing planes using the half a dozen improved airfields, could menace Allied shipping to the

Middle and Far East. Practically all the men and supplies going to Egypt, Eritrea, and Turkey, to the Caucasus and the Russian front, to India, Burma and to China pass within two or three hundred miles of this one thousand mile long island.

Moreover, a considerable part of south and east Africa would for the first time be brought within bombing range of Axis fields. And the broadcasting facilities of "Radio-Tananarive" would stand ready for a psychological offensive against the African Continent.

Vichy's Reaction to British Pressure

The British have long been pressing Madagascar to repudiate the Pétain regime, but a blockade instituted in the early autumn of 1940 seems merely to have forced the country to fall back on its own resources. Madagascar is more than self-sufficient in foodstuffs; six or seven months ago there were no serious shortages except in gasoline, most of which is obtained from the United States. Economic stringencies are bound to develop, however, since more than 80 per cent of Madagascar's normal foreign trade is carried on with France, although the Allies could probably excel the Axis in restoring the island's economic life.

A Free French or Allied occupation, such as has been rumored, might not be difficult, even though Vichy is reported rushing reinforcements from Dakar. The Malagasy natives probably would be rather sympathetic than otherwise, and the small English, Hindu, Chinese and Greek minorities would doubtless welcome it. Inertia and economic considerations have hitherto kept the 25,000 French residents loyal to Vichy, but there is thought to be latent pro-Ally sentiment both in the population at large and even among army officers.

The Fuehrer Reviews the War

Hitler's *Zeughaus* address, while it stressed the hardships suffered in the Russian winter, was scarcely an admission of German defeat. Fundamentally, it was simply a reiteration of the old claim that the Nazis would defeat the Soviets this summer. Its note of restrained gloom, while unexpected perhaps from the Fuehrer himself, followed the party line established by Goebbels this winter. Coupled with Von Papen's reported statement that Germany must take the Caucasus this year or lose the war, it would appear to indicate a growing conviction in Nazi official circles that unless the war is won in 1942, it will drag out into a long and bitter conflict, in which Germany will be increasingly on the defensive.

Certain highly-placed American military observers believe that the Russian advance has now come to a standstill. And aside from a renewal of snowy weather on the central front, the week's news has again been insubstantial. While the Soviets predicted the fall of Kharkov, the Germans claimed that they had repulsed Russian attacks on the Crimean peninsula with heavy losses, particularly in the Kerch area.

Anglo-Russian Crisis?

Dispatches from London indicated, moreover, something of a crisis in Anglo-Russian relations. British official circles, embarrassed by Stalin's claim for eventual annexation of the Baltic states, were reported to fear a separate Russo-German peace. And the Russian leader was said to be equally suspicious of the intentions of Britain's ruling classes—particularly of their attitude toward Communism after the war is over.

In contrast to the fears of Britain's ruling classes, comes a report from a very reliable observer in London that Russia now appears to eclipse in popularity all the other United Nations. This report, while admitting the difficulty of

assaying British opinion after a relatively short stay in England, stresses the declining morale of the British consequent on the removal—for the present, at least—of the imminent danger of heavy Nazi air raids. The average man feels that he has little or nothing to fight for, the report continues. He is by no means sure that the war effort will produce a better world, and he does not anticipate any great change in the post-war social order that would unsaddle the elements that now dominate the country.

German Gains Through Occupation of Soviet Territory

The occupation of Soviet territory has brought to Germany economic gains of some current value and large potential importance. A study prepared in the Coordinator's office indicates that areas in Russia occupied by the Nazis and their Allies in the middle of February contained before the war a population of about 73 millions, perhaps now reduced by 10 to 20 per cent through flight, war losses, etc. The area under cultivation would normally be about 51 million hectares, but the yield in 1942 may be one third or more below that of recent years.

The annual peace-time output, estimated at 18 million metric tons of coal, one million tons of manganese ore, and about 16 million tons of iron ore, has without doubt suffered considerable reduction. The limited peace-time production of petroleum (about 500,000 metric tons) was probably affected only moderately by war conditions. But the pre-war production of pig iron (3.5 million tons), steel ingots (3.4 million tons), and rolled steel (1.9 million tons), has been considerably reduced.

Much more heavily hit, apparently, were the peace-time production of electric power (about 2,900,000 kilowatts), aluminum (32,000 tons), and machinery and metal products. Finally, in the 34-thousand-odd kilometers of railways in

the conquered area, the initial reduction in performance caused by war conditions was probably more considerable than in any other branch of Russian economy—with the possible exception of armament factories. On the other hand, railway transport has probably profited more than any other Russian industry by German repair and reconstruction.

The report warns, however, that such tentative conclusions are often nothing more precise than "informed guesses." Nor can one ignore the effects on actual production of such factors as the defects of the transport system, the heavy strain of continued military activity, the disappearance of skilled laborers, technicians, and Soviet administrators, and the general hostility of the population.

In Soviet society, however, there are two elements of some size to which the Germans might perhaps appeal for cooperation in the construction of their New Order—those peasants who would still prefer individual farming to the collective system, and those members of national minorities who hope for separation from the Soviet Union. To date the Nazis have fumbled badly in the handling of both. They have not made even a pretense of setting up an autonomous Estnonia, Latvia, Lithuania, White Russia, or Ukraine. And they are apparently afraid either to maintain the collective system of agriculture in full vigor or to abolish it outright. In this situation, the Nazis have been in the paradoxical position of trying to maintain an agricultural system which they have condemned, with the help of certain anti-collectivist peasants whose desires they have been unable fully to satisfy.

In summary, the Germans have made efforts to restore and effectively utilize their conquests—notably the transportation system of the occupied area—but their gains belong largely to the future. The German press abounds in articles on the wealth of the Ukraine, but wisely assigns to some later date the benefits to be realized.

Attack on Russia's Chief Supply Line?

The escape of the battleship *Tirpitz* from British torpedo bombers off Narvik and the closure of all Norwegian ports from the North Cape to Aalesund may preface a German effort to cut the best Allied supply lines to Russia by isolating her northern ports. But the mining by the Nazis of Norwegian waters could equally well represent simply German fear of an Allied effort to open a second front in this area. Continued reports of the strengthening of Norwegian garrisons would bear out this latter conclusion.

The Swedish Ministry of Foreign Affairs has meantime been at pains to point out that the confiscation of several newspapers for printing atrocity stories about the Nazis was simply a routine procedure which the government has also applied to the publication of similar items about the Red army. And the Swedish press has found the current rumor wave about a possible invasion by the Germans extremely irritating; Sweden, it implies, would prefer to remain out of the spotlight.

The Mediterranean Timetable

Once again this week the Libyan front remained quiet. But with Rome claiming that Italian torpedo-carrying aircraft had hit three British cruisers in the eastern Mediterranean, and with the American press darkly hinting that Britain had lost control of the central Mediterranean, the outlook for the coming weeks is scarcely reassuring. Heavy air attacks still rained on Malta, whose situation is becoming increasingly difficult. Axis convoys continued to arrive at Tripoli, and reinforcements were being steadily forwarded to Rommel. A highly-placed European observer warned that Rommel would attack in force by March 20, and despatches from Cairo indicated that military circles there felt that the weeks between March 20 and the middle of April would be extremely critical.

For Turkey and Syria the period of alert would probably be somewhat later. Last summer the British and Free French did not strike in Syria until the hot days of June. Turkey is already being visited by a fresh war of nerves. Reports from Ankara indicated that large German firms represented there or in Istanbul have recently declined to make either purchases or sales in Turkey. German Ambassador Von Papen, it was said, had been recalled to Berlin, but so far has been unwilling to risk the journey. It was reported that he had expressed himself as convinced that Germany would lose the war if she could not reach the Caucasus before next winter. Conferences at Sofia between military and naval chiefs of Axis and Balkan nations suggested a possible offensive in southeastern Europe.

Observers stressed the fact that, in the event of an attack, Axis landings could easily outflank Turkish defenders of Thrace and the Straits. Some felt that the Nazis would launch such a drive only if a previous offensive in southern Russia were progressing satisfactorily. Others predicted that, after forcing the Straits, Axis naval units would try to attack Soviet defenses in the rear and directly threaten Batum, chief Caucasian oil port. Weather conditions might permit such an offensive by April.

There appeared to be increasing doubt, however, as to whether Turkey would actively resist a Nazi effort to force the Straits. Symptomatic of a less favorable attitude toward Britain was the report that Sir Stafford Cripps' recent declaration on Russian frontiers had caused high Turkish officials to suspect Britain's intentions toward their own country. Simultaneously, other rumors suggested that attacks on Syria and Southern Russia would simply by-pass Turkey north and south.

With the apparent intention of crippling a major base for an Axis attack on Asia Minor, British naval and air forces

bombed and shelled the Italian island of Rhodes. And British diplomatic representatives seemed to be making a substantial effort to conciliate Arab public opinion.

The United Nations and the Arabs

Reports indicate that at a period when the Axis may be preparing a drive through the Middle East, British relations with the Arab-speaking populations of that area have improved somewhat. One observer has even maintained that the British are prepared to grant eventual Arab independence—with the sole reservation of certain strategic rights in ports and railways.

This attitude on the part of the British has already borne certain fruits. In Egypt Premier Nahas—a nationalist in so far as the peculiar lack of principles in Egyptian politics gives any meaning to the term—has stated that the best policy for his country is to keep faith with Britain. Saudi Arabia is friendly—although British hopes of bringing that country into the war appear to have been blighted. Certain British officials consider a declaration of war by Iraq probable. And in Syria and the Lebanon many of the nationalists seem to be actually pro-British.

This latter sentiment appears to reflect primarily the tenacity of the Free French in maintaining their prerogatives under the mandate. While the natives maintain that the September and November proclamations of the de Gaullists have terminated this regime, General Catroux seems to think of the mandate as formally continuing until it shall be ended by the League of Nations. Such legalistic squabbles, however, appear to be only a facade for Catroux's distrust of nationalist leaders and for Syrian dissatisfaction with entrenched French officials, whom they consider dishonest and inefficient. Admittedly nationalist unrest is playing into the

hands of Axis propagandists. But the relations of nationalist leaders with pro-Ally figures in Egypt and Saudi Arabia would appear to indicate that the General may be mistaken as to their intentions. Meantime, however, it is reported that Catroux will soon proclaim a state of siege in the Levant states.

A more formidable obstacle to any British plans for Near Eastern self-government is Arab hostility to the Jews in Palestine—whom they feel the British favor, neglecting, for example, to search Jewish houses for concealed arms. Some Arabs seem to believe that Jewish elements are aiming to draw them into a fight, so as to enlist world sympathy for themselves as champions of the United Nations in conflict with "pro-Axis" Arabs.

Brazil Moves Nearer to the War

Of all the sinkings of Brazilian ships by Axis submarines, the Brazilians have most resented the loss of the *Buarque*, which was not on its way northward with raw materials of military importance, but instead was sailing southward loaded with coal. Riots in Rio de Janeiro resulted in the sacking of several German stores and in the burning of books taken from a German bookshop.

Since Brazilian public opinion is carefully shielded by censorship from foreign news which might cause a violent reaction of any kind and since the Brazilian police maintain a very strict watch over public disorders of all kinds, the spontaneity of the Rio riots may be questioned. Very slight priming, it is thought, would be sufficient to start a public demonstration against the Axis. In this particular case the police were conspicuously slow in making their appearance on the scene.

Speculation continues, meanwhile, regarding the imminence

of a Brazilian declaration of war. Brazil's reluctance to hasten into war may be owing to the discovery that the army is far from prepared to undertake effective military action. General Dutra is alleged to have failed utterly to put the armed forces in readiness for war. Instead of having some 350,000 reservists, as Dutra claims, it is thought that the army is so disorganized that no reservists at all could be mobilized. Equipment, also, is not in condition for use in the field, and munitions are lacking. This serious state of affairs, in a country which is overwhelmingly favorable to action with the United States, is said to be causing President Vargas and others much anxiety.

The Axis Sinks a Ship of Neutral Chile

The sinking by an Axis submarine of the Chilean freighter *Tolten* off New Jersey last Friday, March 13, has produced among Chileans not so much indignation as alarm. Since Chile not only operates ships on the Atlantic, but faces Japan in the Pacific, the immediate issue is whether this single sinking represents the Axis policy toward Chilean shipping. Mr. Sumner Welles has expressed the opinion that the loss of the *Tolten* is evidence of Axis determination to sink ships of all American Republics, whether or not they maintain relations with the Axis as Chile and Argentina do. The Chilean government, on the other hand, points to the fact that the *Tolten* (sailing at night, to be sure, against the orders of the captain of the Port of Baltimore) was sunk only after she had been intercepted and commanded by a United States naval patrol to extinguish her lights. It is reported that Germany had given the Chilean government to understand that Chilean ships sailing with lights would not be sunk. Chile, in any case, has now forbidden its ships to obey any maritime authority except Chilean, and has ordered its ships

to proceed lighted and identified. This indirect censure of United States naval policy has been supplemented by a request that the United States furnish a ship to transport to Chile the cargo which awaited the *Tolten* at New York.

Because of the questions of lights and conflicting commands, the *Tolten* affair is not clear-cut. It is difficult to judge, therefore, whether this sinking will make Chile more or less reluctant to break relations with the Axis. One Communist deputy and the Communist party newspaper have publicly demanded a break. But the government and a majority of the press have sought to calm the public until an investigation can be made.

APPENDIX I

WEATHER AS A FACTOR IN A JAPANESE ATTACK ON SIBERIA

From the standpoint of terrain and weather alone, the next 30 days are the most favorable of the year for a Japanese attack on the Soviet military centers at Khabarovsk and Blagoveshchensk in eastern Siberia, according to a memorandum prepared by the Geographic Division of the Office of the Coordinator. As the map above shows, most of the Manchurian-Siberian border is protected by rivers and broad flood-plain areas which at present are ice-covered and easily traversed. Aside from Vladivostok (an exceedingly vulnerable city) the main centers are largely surrounded by low alluvial areas

For the next few weeks, when winter temperatures have eased, but when the three- to eight-foot cover of ice has not yet broken up, these frontier water "barriers" actually constitute broad highways over which an offensive might proceed at numerous points. By April 20, the ice on the Amur and other rivers in this district usually breaks up and the ground thaw begins. There is a period beginning in early May, after the spring ground thaw, when terrain conditions might again be suitable for a Japanese offensive. But operations might then be limited by the relatively few dry-ground approaches (shown on the map), and the Soviets would be able more effectively to meet the Japanese attack by massing troops at these strategic points, and by the use of gunboats if river crossings were attempted.

Although mid-winter on the Siberian front is more severe than in western Russia, the temperature in April normally rises sufficiently so that it alone would not hamper mechanized operations. Furthermore, fogginess declines and flying conditions generally are better than those later in the summer.

Summer Conditions

An additional reason for an attack in Siberia at the earliest possible moment—if it is to be envisaged at all—may be seen in the need to consolidate victories prior to the beginning of heavy summer rainfall. In summer the Amur reaches a width at some places of 15 miles, and the low alluvial areas are virtually impassable (see map). Rainfall becomes increasingly heavy in June, reaching a maximum in late July and early August. Only on the higher ground along the western Manchurian border and in a few high spots near Vladivostok are terrain conditions favorable in summer.

The final favorable period for operations is in the fall—September is best—when summer rains have subsided and the extreme cold of winter has not yet arrived.

U. S. GOVERNMENT PRINTING OFFICE: 1944

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Friday, March 20, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for $150,000,000, or thereabouts, of 83-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated March 25, 1942, and will mature June 16, 1942, when the face amount will be payable without interes They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000 $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern war time, Monday, March 23, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on March 25, 1942. The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The

(over)

30-80

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

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

-oOo-

March 20, 1942
9:25 a.m.

Oscar Cox: Have you got another minute?

HMJr: I've got time on the war, always.

C: Well, this is just a side issue. I gather from one of my staff fellows that Ed seemed to think that we were against the Treasury on this A.P.C. thing, contrary to the fact.

HMJr: I think that there were a couple little things, as long as you're asking me, that happened that led us to believe you were throwing your weight against us.

C: Oh, no. Not at all.

HMJr: What?

C: Not at all. We still feel that as a matter of sound administration, it should have been in the Treasury.

HMJr: Well.....

C: Felt that way all along.

HMJr: Well, the way it is now - the way the order was drawn.....

C: Yeah.

HMJr: .....neither Crowley can operate, nor we.

C: That's right.

HMJr: And Ed was at the house last night, and we're putting up something to Crowley today or tomorrow and he'll see what he can do. But the way it is now, both he and I are hamstrung.

C: Well, there's no question about that.

HMJr: And he.....

C: We've been consistent throughout this thing.

HMJr: What?

C: I say, we've been consistent throughout this thing and felt strongly.

HMJr: Well, Oscar, as far as I'm concerned, I've done my job in that.....

C: Oh, I know you have.

HMJr: .....I've cleaned that mess out of Aniline Dye, and demonstrated to the Germans that by paying one law firm $250,000 and one political figure $90,000, another a hundred, that you can't buy influence.....

C: Right.

HMJr: .....the way the Nazi party does it in Germany.

C: Right.

HMJr: Hello.

C: Yeah. Well, that's damned important to do that.

HMJr: And we've now demonstrated that you just can't buy this Administration.

C: Yeah.

HMJr: And as far as I'm concerned, having made that demonstration, I'm satisfied with one proviso - the way it is now, Crowley can draw on me for the entire French funds.

C: That's right.

HMJr: If he wanted to.

C: Right.

HMJr: Hello.

C: Yes, he could.

HMJr: And I want to separate - this is the way I

thought of putting it up to him. Let him have enemy alien property. Hello.

C: Yes.

HMJr: Exclusive of Government or Central Bank funds.

C: Yeah.

HMJr: See?

C: Yeah.

HMJr: We keep anything that has to do with Government or Central Bank funds.....

C: Or non-enemy.

HMJr: .....or non-enemy property.

C: Yeah.

HMJr: In other words, my conception - I mean, since the President's done this - is that Crowley should be enemy alien property custodian.

C: Yes.

HMJr: Hello.

C: Yes. I'm not so sure that third part is sound.

HMJr: You're not.

C: No, because if you try to separate the thing, you begin to throw some question about both your legal power and your ability to divide what is enemy alien and what isn't.

HMJr: Well, now, let me take, for example - supposing the Queen of the Netherlands owns a lot of property here.

C: Yeah.

HMJr: She's supposed to.

C: Yeah.

HMJr: Why should Crowley take that over if the State Department would let him?

C: For vesting purposes he shouldn't.

HMJr: And vest it in United States Government.

C: No, he shouldn't.

HMJr: What?

C: He shouldn't. I think the division is much better made that you handle all the non-vesting cases, not try to draw a distinction between enemy alien and non-enemy alien property. In other words, as to Government-owned funds, Central Bank funds, and cases where he does not vest but where you want to exercise the degree of control up to vesting. In other words, your freezing control, I don't see any reason why Crowley ought to go into the freezing thing, which is really a branch of economic warfare and not custodianship of property.

HMJr: But I still - why should he - as I say, do you agree with me that he should not vest in United States Government either Dutch or Norwegian property?

C: That's right.

HMJr: What?

C: That's right.

HMJr: Well, at present, the way it's set up he could.

C: Could, but he shouldn't.

HMJr: Well, I'd like that clean-cut.

C: I think so.

HMJr: What?

C: I think that's wise.

HMJr: And I thought a good place to start was enemy alien property custodian.

C: Well, that's all right if you make a mutual agreement between you; but I wouldn't publish that distinction.

HMJr: Well, the way the thing has gone recently, I pretty much want some stuff in writing - not that.....

C: It ought to be in writing.

HMJr: What?

C: It ought to be in writing.

HMJr: Not that Leo hasn't kept faith with me.

C: Yeah.

HMJr: Because on this.....

C: Well, I think you need it in writing for another purpose. There'll be a lot of people in this thing, and you and Leo can keep faith; but when you get down the line, you don't know what's going to happen.

HMJr: Well - and, of course, everybody was betting that we'd never get rid of that crowd out of Aniline Dye.

C: Yeah. Well, they didn't know you.

HMJr: What?

C: They didn't know you well enough.

HMJr: Well, if I have ever done the President a service, I did on that.

C: Oh, certainly.

HMJr: Well, anyway, as long as you're calling me, why don't you ask Ed to have lunch with you some day.

C: I will.

HMJr: What?

C: I will.

HMJr: Do that.

C: All right.

HMJr: Right.

C: Good-bye.

HMJr: Good-bye.

March 20, 1942
9:18 a.m.

Operator: Go ahead.

HMJr: Hello.

Oscar Cox: Hello.

HMJr: Oscar.

C: Yes, Mr. Secretary.

HMJr: In which of your three capacities am I speaking to you?

C: Friend.

HMJr: What?

C: Friend of the War.

HMJr: Friend of the War? Well, that's a fourth capacity.

C: That's right.

HMJr: But I say that would come first.

C: I should say so. Look, you know this Sea Otter business, don't you.

HMJr: Well, I knew about it six months ago.

C: Well, it's been revived, because curiously enough Senator Brewster went to see the President about it.

HMJr: I saw that in the papers.

C: And apparently the President, as Brewster put it, was not only displeased with the way the thing's been going, but angry.

HMJr: Yeah.

C: And Brewster wanted to know if he could talk

to me and see if we couldn't get it off the ground.

HMJr: Yeah.

C: He did.

HMJr: Yes.

C: And two fellows over in the Navy who are almost on the verge of being court-martialed because they're interested in this thing.

HMJr: Well, those are the men, I imagine, that designed it in the first place.

C: No, they worked on it. The designer is an outstanding Naval architect who lives in Washington, and probably the President knows him quite well.

HMJr: Yes.

C: Now, they want to go ahead with the thing. The defects on the Navy test were not serious.

HMJr: Yes.

C: And as a matter of fact, they had in mind some correction in any event.

HMJr: Yes.

C: Now, if these two fellows go off on their own, they'll get completely lost.

HMJr: Yeah.

C: Maritime won't give them much help, nor will Navy.

HMJr: Yeah.

C: And I wondered if we could get the President to ask you whether you would take it under your wing.

HMJr: Well, Oscar. Hello.

C: Yeah.

HMJr: Well, I'm just thinking out loud, but what would the excuse be that he'd want me to do that?

C: Well, that Treasury Procurement would look after the thing and tend to contracting to get the line drawings done, get the experimental test work done; and then if the test should show up satisfactorily, go ahead and make the necessary arrangements for Procurement.

HMJr: Well, I'll tell you something terribly funny. When I first saw these plans, when McIntyre was acting as the President's aide - which must be at least six months ago.....

C: Yes.

HMJr: .....I was very much tempted to ask for it, you see?

C: Yeah.

HMJr: Then I decided it was too far removed.

C: Well, what you really ought to do is have somebody who knows nothing about shipbuilding running this thing.

HMJr: Well, that goes for these small ships, too, which the President's so interested in.

C: Yes. Well, this, of course, is a fairly small ship.

HMJr: I know, but I mean, he's been absolutely frustrated on the small ships.

C: Oh, yes, definitely.

HMJr: I mean, all this - if we had our small ships, then we wouldn't have all this trouble with the subs.

C: That's right. And as a matter of fact, I would

say from what little I know about this thing that the chances are really eighty to twenty of this thing being a success.

HMJr: What is that?

C: I would say the chances are eighty to twenty that this thing would be a success.

HMJr: Well, let me ask you this, Oscar, how would the President be approached. I certainly wouldn't ask him.

C: Oh, no. We'd arrange for that.

HMJr: Who's we?

C: Well, probably after Brewster saw the President, he said he would also talk to Harry about it.

HMJr: Yeah.

C: And Brewster wanted to know if he could come over; and before going over to see Brewster, I checked with Harry and he said, "Go ahead."

HMJr: I see.

C: Now, what I would do would be to either put it up to Harry or have - do that and have Brewster follow up on his conference with the President.

HMJr: Well, it would.....

C: It's a unique political situation here, too, where a Republican Senator is pressing the Administration to go ahead with something that two agencies have been inclined to turn down.

HMJr: Well, I'd be reluctant, but if - I don't think - I'm quite sure the President wouldn't; but if you wanted.....

C: I'd like to get it put up to him.

HMJr: It's all right.

C: Because I think you're the only fellow that I know

in the Government with your organization that's got a chance of putting it across.

HMJr: Yeah.

C: And I think that it's damned important - it's probably the most important thing we bring in the picture.

HMJr: Of course, if I was going to do it, I'd have to borrow a couple of my good Coast Guard men.

C: Well, I was going to say, you'd not only have to do that; but I'd also consider going up to a place like M.I.T. and borrowing one of their best naval architects and construction people.

HMJr: Yeah.

Of course, the fellow - nobody likes him.....

C: Yeah.

HMJr: .....but the fellow that's got - that I'd get - has more push than anybody else so far, is this fellow Kaiser.

C: Yeah. Well, there's no objection to getting him. As a matter of fact, most of the small yards in this country can build the boats, that's the other advantage. You wouldn't even need to take anything away from the Maritime Commission.

HMJr: Well, I saw it. I saw the whole plan that they brought in earlier. It's a question of riveting - welding these plates.

C: That's right.

HMJr: And then these Chrysler truck motors, that's what it is.

C: They're marine engines - Chrysler marine.

HMJr: Well, marine.

C: Yeah.

HMJr: One.

C: That's a Chinese understatement.

HMJr: Oh.

C: No, you had - you're what the lawyers call the props and the core.

HMJr: Well, I think I stirred them up.

C: Oh, I don't think there's any question about it.

HMJr: And Patterson told me yesterday, after about I don't know how many calls, they finally put a Colonel in Philadelphia.

C: Yeah.

HMJr: And that's straightened out. There are three hundred cars a day flowing into Philadelphia since yesterday.

C: Oh, wonderful.

HMJr: Three hundred cars.

C: Yeah.

HMJr: And you know the railroads were going to stop them all in order to clean it up.

C: Yeah. Well, that's good news.

HMJr: So I think that that Russian thing.....

C: That's off the ground.

HMJr: Well, it is if Nelson will act.

C: I think he will now.

HMJr: Well, I'm going to put something up to him on our little show. We're 25,000 tons short between now and the first of April.

C: Yeah.

HMJr: And I want to get that.

C: Yeah.

HMJr: And we tried something new - we sent telegrams to these plants, you see.

C: Yeah.

HMJr: And asked them where would they be by the twenty-first, the twenty-eighth, and the thirty-first.

C: Oh, that's a good idea.

HMJr: Three dates.

C: Yeah.

HMJr: And out of that came that they would be short 25,000 tons.

C: Right. You know that that letter in its original draft.....

HMJr: Yeah.

C: .....gave the raw materials first priority except where to do so would result in an extraordinary interference with domestic production.

HMJr: Yes.

C: And they took the exception out. They said it gave them a loophole and they wanted no loophole.

HMJr: Yeah.

C: I thought you might want to know that for background.

HMJr: They have no loophole now.

C: No, no. It's just a flat priority ahead of everything else.

HMJr: Yeah. Well, keep plugging, Oscar.

C: Oh, sure.

March 20, 1942
10:10 a.m.

FINANCING

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

H.M.JR: Who all are coming over from the Fed this morning?

MR. BELL: Eccles, McKeechie and Sproul.

H.M.JR: Did you tell them who I was having?

MR. BELL: Yes. Do you want to change it?

H.M.JR: Oh, no. They didn't object? They knew who was going to be here?

MR. BELL: Yes, that is right. They asked to keep it small.

H.M.JR: Well, you add George to the list.

MR. BELL: If you want to change it, I will do that.

H.M.JR: Oh, no, the less of them the better. Let me read Buffington's memorandum on this. Have you all

read it this time?

MR. BUFFINGTON: I am sorry, Dan has read it and I have talked it.

H.M.JR: Honestly, can't you fellows give people a chance to read these things so that I don't have to go--

MR. BELL: We discussed, Mr. Secretary, with the rest of them.

H.M.JR: But why not show it to them? I go through this every morning. I have a memorandum and has everybody seen it? No. Damn it, every morning it is the same proposition. How can Viner and the rest of them advise me?

MR. VINER: I got an oral exposition of it.

H.M.JR: You sit outside and why not let a man read it?

MR. BELL: I think they got it.

H.M.JR: This is the third morning this thing has happened. Dan, please, when there is a memorandum, it is up to you to see that these people see them. Every morning it is the same proposition. This is the third time now.

What were the kind of concerns that you saw, George?

MR. BUFFINGTON: International Harvester Company, Pullman Company, John Wanamaker Company, Standard of Indiana, Standard of New Jersey, Wrigley Company, Quaker Oats Company, Continental Casualty, U. S. Steel Corporation, U. S. Rubber Company.

H.M.JR: Well, did any of those have idle funds?

MR. BUFFINGTON: Yes, sir.

H.M.JR: Which ones?

MR. BUFFINGTON: The International Harvester Company, Commonwealth Edison Company, Pullman Company, Lumbermen's Mutual Casualty Company, Standard Oil of Indiana.

H.M.JR: Let's go back to the first one then. What is the first one on your list?

MR. BUFFINGTON: International Harvester Company.

H.M.JR: Well now, what would they be interested in?

MR. BUFFINGTON: Primarily certificates of indebtedness and bills.

H.M.JR: Now what is the next one?

MR. BUFFINGTON: Commonwealth Edison Company, both bills and certificates of indebtedness. Those two companies both have future needs that they can schedule.

H.M.JR: Neither of them are interested in a five-year issue?

MR. BUFFINGTON: Not particularly. Lumbermen's Mutual Casualty Company would only be interested and are now buying bills and would buy certificates of indebtedness.

Swift and Company has reabsorbed recently their excess funds through higher inventory values.

Standard Oil of Indiana have sixty million Governments maturing up to 1945. They have some bills and would like very much to buy certificates paying a half from six to nine months.

Quaker Oats Company, same thing, would prefer certificates and would buy some bills. They would buy more bills if the rate was a little better.

Continental Casualty Company, for the casualty companies, would buy both bills and certificates.

In New York, Singer Manufacturing Company, who have contracted very sharply their foreign operations and have sixty-eight million in Governments now maturing in 1948 would like very much to buy a tap issue because their needs are not quite as certain or as early as some of the other corporations.

Standard Oil of New Jersey own a very large amount. I think they own now between fifty and sixty million of bills.

Steel Corporation has never invested funds, but were interested in the purchase of five-year tap issues and would buy some bills.

Corn Products Company would buy bills and certificates; but, as I told you yesterday, if you just lay out the pattern, they will follow along.

H.M.JR: Are you finished?

MR. BUFFINGTON: The thing in that memorandum which I think is important, while I got a fairly good cross-section of the type of business which I have outlined, it would seem to me desirable before deciding definitely on the tap issue to go a little further and get probably a broader cross-section of industry, getting into some more moderate-sized companies.

H.M.JR: Should I read this before I make up my mind? Is this different?

MR. BELL: Yes, that follows our conference with the Federal Reserve Board the other day.

H.M.JR: Have they seen this yet?

MR. BELL: That has been distributed. After we got through with our conference over there, at the end Eccles called Sproul on the telephone and when they finished he asked Sproul to send down a memorandum along the lines of this telephone statement. That is Sproul's

memorandum and I think Eccles agrees with it. That is what they will tell you this morning.

H.M.JR: Then I had better read it. I got a couple of ideas myself during the night. There are two things that I would like you to do. One thing is - if you gentlemen think we will have it - I would like you to get a thousand names of people who this year have bought their maximum of "F" and "G", you see, and if possible, just mimeograph a letter and simply say, "Dear Sirs: We notice that you have bought your maximum of 'F' and 'G'. We would like to know for our own confidential information that if we decide to increase this to a hundred thousand, would you avail yourself of this opportunity." Now, if that could go out, it ought to be able to be mimeographed and go out - well, certainly by tomorrow night, couldn't it?

MR. BELL: We will see. I don't know how readily the names are available.

H.M.JR: Well, I should hope it would be in shape. Then again, guessing whether they would or wouldn't, you would get back a thousand names and depending upon the percentage of the people who would say they would, we could decide should we raise it to a hundred, but we sit here and guess. Is that right, Jack?

MR. VINER: I think that is a good idea.

H.M.JR: What is the use of always guessing?

MR. VINER: It is a good idea.

H.M.JR: And then if--

MR. BELL: The fifty was a guess, that is right. We didn't know where to put it.

MR. VINER: A guess as to what sort of a response there would be to raising the ceiling.

H.M.JR: I am not saying - supposing seventy-five

percent said, "Yes, we would like to buy another fifty," and they were the right kind of people in the sense that they were trusts and so forth and so on, then we would know. We are guessing do they want another fifty.

MR. BELL: Would you want to ask them the question in that letter, "If you want more of the 'F' and 'G's', would you have to sell securities that you now own to buy them", or would it be out of order?

MR. HAAS: That is why we didn't raise it above fifty.

MR. VINER: That will be an additional question. It would through light on the significance--

H.M.JR: Could you put it a little bit differently, so it isn't so obvious, "What would be the source of the funds that you would buy your second fifty with?" I mean, I wouldn't plant it in their mind that they have to.

MR. BELL: That is all right. That gets the same question over.

H.M.JR: But I think if you did that, then this thing that we have been told, that they would have to sell, you might find that they do or they don't, and they are talking about idle funds - anyway, I think it is an intelligent way to do it. It may get us nothing and on the other hand we may be surprised. I would like great steam to be put on, if possible, to get it out by Saturday night, if it is mechanically possible.

MR. BELL: I think maybe it is.

H.M.JR: That is my first suggestion.

Now, the other thing is this. I may be all wrong on this. I have read this thing. This is out of yesterday's discussion. I don't agree with Sproul that we should first do the bills and then, if we need more money, we should do the certificates. We know we need more money, and I

am leaning toward doing the certificates first and not the bills, because I don't see, if I am a corporation or a bank and can get a certificate that will pay me a half percent for six months, why I should fuss around with a bill that will pay me a quarter or less. If we offer them the certificates and I have got money, I will not - I will take my certificates. I won't take the bills. There will be less buyers of bills and the bill rate will go higher. That is what is going to happen, and that is what we don't want.

Now, if we could just do the bills the way Sproul says and then do the certificates - well, the bill rate might stay down. What they propose to do would be all right, but it would only be a week or so before we would need the certificates, and we can't do the thing. Everybody would know about it and they would simply says, "There is no use of buying the bills, because in a week the Treasury is going to get out the certificates," and you would have a hardening of your rates.

Now, what we are hoping to do is, supposing we said, "We will do nothing now, but we will take seven hundred fifty million of certificates and leave the bills where they are." Then there may be a chance that the certificate - that there is so much money that the certificate rate - that at the end of April we might be able to go seven or eight months or nine months.

Now, it can't make a difference of over two or three hundred million dollars if we held back the bills for a month.

MR. BELL: Two hundred fifty-eight million dollars in April. There are five weeks there, five Wednesdays.

H.M.JR: I am picking up where you left off yesterday.

MR. BELL: I think this has one advantage in putting out the certificates. First, it kind of sets the top for the short-term money in that period, and bills -

ninety-day bills shouldn't go up to any rate that you establish on this six months, I should think, but I do think there is another point you want to consider and that is, does this establish in the minds of the public a type of financing that the Treasury is going to do? In other words, are we going to do a lot of this financing through banks, and do they get set on that idea? That is the argument you are going to run into this morning with the Federal, and I think George is a little worried about it.

MR. HAAS: Unless the proper explanation is given.

MR. BELL: Yes.

H.M.JR: Look, I would be perfectly willing to meet the press before I go away and say, "Gentlemen, we can't have a complete plan." You have got to learn how to walk before you run.

MR. HAAS: You can say it is for business, for this type of funds.

MR. VINER: Couldn't you say this, that you hope that a large proportion of the subscriptions to these certificates will come from outside of the banks?

MR. BELL: That is right.

MR. VINER: At least you can say that. I don't see any harm in that, and it seems to me it does work into the pattern that you must be working for and it is a security suitable for non-bankers. I mean, you are not really asking them to do something that is unsuitable. It seems to me highly suitable for non-bankers.

MR. HAAS: The Fed didn't like that statement. We had that in, Jack, when we went over, but I think they would agree to that.

MR. BELL: And I agree with Jack's version of it.

MR. VINER: You needn't mention the banks. You might

say that we hope this new security will be found attractive by - and then--

MR. BELL: Non-banking.

MR. VINER: Don't say non-banking, but list a few categories, for businessmen for their temporary idle funds and so on.

MR. HAAS: And to bring about fluidity in reserves.

MR. VINER: And to bring about fluidity in reserves.

MR. HAAS: That is what we had.

MR. BELL: What they are afraid of is that if you say too much about business balances, you are going to kill any chance of a short tap.

MR. VINER: Of the five-year thing, you mean?

MR. BELL: Yes. And I suppose it will have some bearing on it.

MR. VINER: But there is another thing you can say. You hope to get a nation-wide subscription to it because the geographical corresponds so much with the class that if you get subscriptions outside of New York and Chicago, you are getting the sort of subscriptions you want.

H.M.JR: Well, let me just ask you this. For the moment, as I take it, we are just talking about doing the certificate only and waiting on the bill. Right?

MR. BELL: That is right.

H.M.JR: For the moment. Let's say that the thing works well and the Standard Oil and the big companies and all those along the line put some of their money into that. Would that give me a better distribution of excess reserves?

MR. VINER: It would.

H.M.JR: It will? Are you all in agreement on that?

MR. VINER: I think that is the probability.

MR. HAAS: Between banks and between regions.

H.M.JR: It will give us--

MR. HAAS: Sure. For instance, if Guaranty buys something, that money goes to somebody else that would be interested in other securities.

MR. VINER: It isn't the Guaranty who buys it. If a Pacific Coast air concern buys it. Some of those funds - if it is all bought west of the Mississippi, some of those funds will flow back to the East to New York.

MR. HAAS: There is that too, but in New York City alone, if Guaranty buys it, these funds will go back into some other New York firm.

MR. BELL: There will be a shift between banks, in other words. One bank will get excess reserves increased and the other one will decrease them. Guaranty's excess reserves were down to about two hundred and eight last week.

H.M.JR: But it would give us a certain amount of--

MR. HAAS: Fluidity.

H.M.JR: ... fluidity, wouldn't it?

MR. BELL: That is right. The wider your distribution, the better your reserves can move around.

H.M.JR: And could we say to the Fed, "Now, we want to try this thing first with the certificates, but when we are doing it, we want you to hold our two and a half percent longs about where they are"?

MR. VINER: Oh, for the time being, sure. I think

they ought to do it anyway.

H.M.JR: What are they?

MR. HADLEY: The longest bond has about a three-quarter point premium on it.

H.M.JR: Could we say, "We would like you to hold it for us about where it is," Dan?

MR. BELL: Yes, we can say that. I think they will argue there for a range of rates from about two - what we discussed last time we met on that point, two forty-four to two fifty-four.

MR. VINER: But Dan, that rate would be for a longer period of time. For any short period--

MR. BELL: It ought to involve all these other things.

MR. VINER: The shorter period the narrower the range that is legitimate.

H.M.JR: All I would say to them, "I would like you to hold it approximately where it is with the minimum of fluctuation."

MR. VINER: For the time being?

H.M.JR: Yes.

MR. BELL: Until we can agree on the long program.

H.M.JR: And if they say rates, I am going to talk in terms, approximately, with a minimum of fluctuation.

"Well, what does that mean?" "Well, I don't think this should fluctuate more than a half point from where it is now."

MR. VINER: For a short period of time. Because the longer the period, the wider the legitimate range.

H.M.JR: No, this is to be ajusted--

MR. VINER: I think that is reasonable--

H.M.JR: As often as necessary. We can have a talk tomorrow or a week from now, but constant consultation.

MR. BELL: Does that mean hold it within half a point on each side of the present?

H.M.JR: Oh, I would rather leave it - I don't want - I would rather say hold it - the minimum of fluctuation and not be pinned down. "You people in the open market have got to decide how to do it. It is your responsibility. Now do it. If I am not satisfied, I will call you up on the phone and tell you so."

MR. BELL: If it starts to go up, they might sell some and hold it down to the present price.

H.M.JR: That is all right, but I will simply say, "No, Mr. Eccles, if I am not satisfied, I will call you on the phone and say so. As long as I am satisfied, you won't hear from me."

MR. BELL: I think that is all right.

H.M.JR: "I mean, you are the open market and it is your responsibility. Do your stuff. If I am not pleased, I will call you up on the phone."

But am I right, gentlemen, in trying to do just the certificate first and not do the bills?

MR. HAAS: I think you would be very wise. Dan made a very good point there, I think, that if you do the bills first, what happens? You run your short-term rates up and then on a high level you come out with a certificate.

MR. BELL: You can't do a certificate for six months at a half percent.

H.M.JR: Pardon?

MR. BELL: I am afraid if you start your bills first that you might run your rate up and then you couldn't do the certificate for a half for six months, and if you put this first, I think it sort of establishes a ceiling for your short rate.

MR. VINER: But I think you can sell the certificates, my guess, at the same rate as you can sell the bills.

MR. BELL: You might.

MR. VINER: Give them the quantities you want to float. A six-month's bill, put it that way, a six-month's bill would be more attractive to them than a three-month's bill.

MR. BELL: If that is true, Jack, you have pretty well set your bill rate, haven't you? Your certificates are going to become very popular.

MR. VINER: You remember what I said yesterday, that if you offer them a certificate of a half a percent, you are killing your bill market at anything like a point two or a point twenty-five rate because the bills are costlier to handle for them, they are harder to bid for them, they have more turn-overs to make in order to get an investment, and they are a discount and they prefer a coupon, so that I think your certificate is going to be a much more attractive issue for them, and you are getting to the half a percent rate, which is - which is all right. It doesn't bother me but ..... in other words, I think there is a good chance that you will find that all the discussion about the bills will become obsolete if you are prepared to issue certificates, six-month's certificates at half a percent, that you will be able to sell great quantities of them and that they will do the job that normerly you would have expected bills to do, and that the bill thing will be obsolete. It will be a minor thing and a marginal, and it will be a New York-Chicago thing with the big banks. Nobody else will be interested

in them. The certificates will perform the function in the money market which the bills are supposed to have performed. Now, it is all right with me except that you are not doing it at a point two rate. You are doing it at a point five rate.

H.M.JR: Well, I have watched this thing long enough, and I am surprised to hear that any corporation owned our bills.

MR. BELL: Well, there are only fifty-four percent of our outstanding bills in the hands of the banks and insurance companies.

H.M.JR: Only fifty-four?

MR. BELL: Forty-six percent of them some place else.

H.M.JR: Well, I didn't know that.

MR. BELL: That is the January 31 figure.

MR. LINDOW: I think it is sixty-four percent in the banks and insurance companies.

H.M.JR: Well, you can't--

MR. BELL: Even that leaves thirty-six percent.

H.M.JR: But how much between the banks and insurance.

MR. LINDOW: Mostly the banks, Mr. Secretary.

MR. BELL: Insurance companies hold ten percent.

H.M.JR: Well, I wouldn't be worried if I could go through this war on a half a percent between six months and a year.

MR. HAAS: That is all right.

H.M.JR: I mean, if I could borrow from six months

to a year for a half of one percent I would say I was doing very well.

MR. HAAS: That would be fine.

MR. VINER: I think you ought to consider on this Treasury certificate for the first issue at least a preparation to move back - oh, I see. It would be the other way. Offer them six--

MR. BELL: Nine months.

MR. VINER: Perhaps the other way. It was George's earlier point that if the rate is too good, it is better to stiffen the rate than to retreat, but it depends on how much you want to float. I think half a percent for six months is a very good rate now from the first point of view.

MR. HAAS: It may be too good. I think you would want us to look that over very carefully. I mean, that is a part of pricing.

MR. VINER: But if it is too good, then you have had a great success, you have offered them a security and you offer your next issue at eight months, seven months.

H.M.JR: That is right.

MR. BELL: When you come to offer them you might want to put them seven months instead of six months to make it a little finer.

H.M.JR: That is right. Now, let's just--

MR. BELL: You don't think seven hundred fifty million dollars would stiffen the rate a lot do you?

MR. VINER: I don't think seven hundred fifty million will make a ripple in the market.

MR. BELL: And we will know better when the next

one comes along.

MR. VINER: If you give them time, because you are going now to tap people who have not been daily in contact with Treasury operations and so on, and if you want to bring in a wider market, then you mustn't rely on their being on their toes and ready to do that, because a comptroller has to consult his chairman, and it is a new idea and it has got to circulate, and they have got to talk it over with others. On the first time that he is given time--

H.M.JR: I would give them three days.

MR. BELL: Leave it open that long?

H.M.JR: Yes.

MR. VINER: I would leave it open--

MR. BELL: We have got to get used to that anyhow, I think.

MR. VINER: Mr. Secretary, I would leave it open even though on the first day you get a huge over-subscription, so as to train them to buy, I mean the ones who - so as to train them to buy. Give them a chance, give the others a chance to learn what is the - after all, they read about it in the newspaper, and then they have to talk to somebody, and the man isn't down that morning and so on.

H.M.JR: Instead of leaving it open for three days, you could announce on a Monday that the issue would come Wednesday.

MR. VINER: Yes, that is another way to do it.

MR. BELL: You could give these corporations a preliminary notice.

H.M.JR: Supposing you announced on Monday that on Wednesday we are going to have this kind of an issue, you see.

MR. BUFFINGTON: The Steel Corporation asked that especially, because their finance committee has got to act on it.

MR. VINER: You have to get a finance committee together and so on.

H.M.JR: Supposing we said on Monday we were going to announce this kind of an issue on Wednesday.

MR. BUFFINGTON: That gives them an opportunity for a meeting.

MR. VINER: You are operating with amateur buyers, not professional ones.

H.M.JR: I think it would be better to do it that way rather than do it Wednesday and keep it open for three days because that might look bad.

MR. BELL: It would on a shorter issue, but I think on our long issues we have got to come around to leaving them open.

MR. BUFFINGTON: But if you announced this thing Monday, that Wednesday there would be such and such an issue, the chances are the people would call their finance committee together on Wednesday.

MR. BELL: And we could on Wednesday or on Monday, when you make that announcement, have the Federal circularize the large corporations in their district.

H.M.JR: That is right.

MR. BELL: And tell them about it.

H.M.JR: Now let me just take a minute or two and go around. How would you feel about this, George?

MR. BUFFINGTON: All right. I would like to see the certificates seven months.

H.M.JR: Well, that is a detail. No, what I am talking about is that the first step would be to get out a seven hundred fifty million dollars certificate issue and keep the bills where they are on the hundred and fifty mark.

MR. BUFFINGTON: I think that is a wise thing to do. I think that is all right.

H.M.JR: Hadley?

MR. HADLEY: I am all in favor of just doing the certificates first. I think that trying to support a bill rate is doing it the hard way to get excess reserves, and I would just put out the certificates first and see what happens.

MR. LINDOW: I am for it, and I think it is very important that the announcement be made, though, along the lines you suggested covering the two points, fluidity in the banking system and the desire to attract some of these business funds. I think you might say that you have talked to some of the business people and that they are interested in it. Otherwise it might look as though we were hard pressed and a short issue was the best we could do at the moment.

H.M.JR: Well, if we said this thing - supposing I gave this statement out tomorrow for Monday morning and then we said we weren't going to do this for another week. It shows we have planned the thing and we are not hard pressed and have lots of time, and we are planning this thing ten days and two weeks in advance. What? People read Monday, "Well, this is the Treasury plan." That is what we are going to do ten days from now. There is nothing hard pressed about that.

MR. LINDOWN: I think that would make it very good.

H.M.JR: And step by step we would want to do this thing. Henry?

MR. MURPHY: I hate to advance without a barrage

Mr. Secretary, but if we must do it, I think this is probably the safest way to do it. I certainly agree with you that it would be a good thing to announce it a week in advance. I think you ought to depend for your education as much upon successive issues as upon a single issue. I think it would be much safer if the short-term rates were determined in advance. We don't know just what will happen.

H.M.JR: No, we will do it to the certificates.

MR. MURPHY: I say we don't know what the effect of adding a substantial increment to the amount of securites in the short market will have. I don't think enough emphasis has been placed upon the difference in the character between the bill and the certificate, in that we compare a half rate on the certificate, say, with a twenty-five rate on the bill, but that isn't the way that it will impinge upon the market. The certificate will be priced, I suppose to, say, a four thirty-seconds' premium. Now, that premium on a half certificate for six months means it only yields thirty-seven in the market and this slipage, so to speak, is bound to take place in the case of the certificate. I don't think it is an evil in itself, but it does impair the straight comparison between the certificate and the bill rate.

MR. BELL: Do you think the bill rate will come up to meet it or will it have a tendency to hold the bill rate somewhere below that three-eighths.

MR. MURPHY: I think that since the push on the part of the Federal Reserve System for higher short-term rates which they consider to be a good thing for the economy is a strong one, and I think it is generally known throughout the country. Unless there is an announcement to the contrary, I think it will be generally believed by the market that the Treasury has joined in this purpose and that one of the purposes of the increased amount of short-term financing is to secure more "healthy" short-term rates.

H.M.JR: Well, we are going back over the whole

thing. I am familiary with that angle of the thing. There is no use opening - I asked you, but I am willing to do that. I am willing to face that.

MR. MURPHY: Then I think the certificate by all means should come first.

MR. BELL: What I would like to see in this connection, taking both Murphy's and Viner's fears, I would like to have an understanding with the Federal that they might also buy some bills.

H.M.JR: Good. I hoped you would say that. To keep the bill market about where it is.

MR. BELL: That is right, I would say up to three tenths.

H.M.JR: Well, I think it is much better for me to say, "Look, gentlemen, while we are doing this, I would like you to try to keep the bill rate approximately where it is and the very longest approximately where it is. And what is approximately? Well, that is your responsibility, and if I am not satisfied - " I have never operated - when George Harrison was there, I would say, "These are my objectives. Do it, and if I don't like the way you do it, I will tell you so, but it is your responsibility."

MR. BELL: But I think they could have some indication if this short rate on Treasury certificates falls to thirty-seven, certainly the bill rate ought to be some place below three-tenths, but if the certificate rate hangs around a half, I wouldn't mind seeing the bill rate range between a quarter and three-eighths, as long as it didn't go above three-eighths.

H.M.JR: George, which one of those charts shows the bonds?

MR. HAAS: There is a chart for each bond and the average.

H.M.JR: Where is the average?

MR. HAAS: Here it is. (Showing report to the Secretary.)

H.M.JR: Well, it is getting better.

MR. BELL: The market has improved.

MR. HADLEY: It has improved since the tax hearings.

H.M.JR: Where is the next one?

MR. BELL: And since MacArthur got off.

MR. HAAS: Each bond here. The lone ones are way out here, you see. These white ones are taxables.

H.M.JR: Well, let me look at these. Are they all bunched together?

MR. HAAS: No, there is one bond, this one out here, '67-'72. That has moved up.

H.M.JR: It has moved up since they know we have been stalling.

MR. BELL: Yes, since the last issue. It was around twelve as I recall it on the last issue, wasn't it?

H.M.JR: Well, we have a nice situation. Did you know it had been getting so much better?

MR. VINER: Yes, I know the bond market had improved.

H.M.JR: Well, I didn't. Now, where are the certificates?

MR. HAAS: We only have the notes in here.

H.M.JR: Where are the notes?

MR. HAAS: There is the shortest and here is the longest. This white one is a taxable.

MR. BELL: The trouble with those things, they have right values.

MR. VINER: The certificates say no rights, don't they?

MR. LINDOW: Yes.

H.M.JR: Now, I got as far as you. Viner?

MR. VINER: I would approve of going at it from the certificates. The question of the length, the maturity--

H.M.JR: Well, that is a pricing job.

MR. VINER: Yes, a pricing job, but it is a pricing not merely for the state of the market that day, but in terms of what sort of pattern you want to grow into.

H.M.JR: George, have you got anything?

MR. HAAS: I haven't got anything to add. I agree with what has been said, and I take it you do too. I think you have had an excellent night and hit on an excellent solution.

H.M.JR: Pardon?

MR. HAAS: You had a good night and hit an excellent solution.

H.M.JR: I only picked up where Bell left off. That was the last thing that Bell said, wasn't it, Dan, yesterday? At least it is the last thing that rang a bell with me anyway.

MR. BELL: I don't have a very good memory these days.

H.M.JR: No, that was the last thing.

Buffington?

MR. BUFFINGTON: No, I--

H.M.JR: Burgess is in Washington and is having lunch with Eccles at one. It was terribly funny, when we were working so hard on this Aniline and Dye thing we were trying to locate a man and they said, "Well, you can find him over in Homer Cumming's office. He is over there with another person." We never knew that this man was on Homer Cumming's side, and they said, "Not only is the one man we are looking for over there but the other man is too." Mrs. Burgess says, "I don't know where I can reach him, but I know he will be with Eccles at one o'clock." Well, one of the things, if I may say - no, I am not going to tell you. You will ask me not to. I won't embarrass you. I may say to Eccles, One of the things, the reason I am going so slow is, I think in going to New York he messed the thing up and that the bankers now have got their backs up.

MR. BELL: I think he has learned his lesson maybe.

H.M.JR: Did you ever say anything to him?

MR. BELL: Yes. He called me that evening. He knew that you knew it.

MR. VINER: Well, you told him that you had been talking to the bankers in New York.

MR. BELL: You sort of intimated it that afternoon.

H.M.JR: No, what I said was just to sort of drop it.

MR. VINER: He was embarrassed.

H.M.JR: No, what I said to him was, I put it this way, "By the way, Marriner, what did they tell you in New York when you were up there seeing the bankers?"

MR. VINER: Well, you had already told him.

MR. BELL: He was very much embarrassed.

MR. VINER: That is enough.

H.M.JR: I did it that way because Dan begged me either to say nothing or to do it gently, so I said it and I wrote a little note to Dan, "Are you satisfied with the way I did it?" and Dan said, "Yes."

All I said was, "What did the bankers say to you up in New York?" (Laughter) Wasn't that a gentle way?

MR. BELL: Yes.

MR. VINER: You used a heavy sword instead of an axe. It was all right.

H.M.JR: I didn't get angry.

(Discussion off the record."

H.M.JR: Well, I want to meet with me, as I said yesterday, Viner and Haas and Buffington at this eleven o'clock meeting, and why don't you fellows (Hadley, Murphy, and Lindow) begin drafting a little statement. It oughtn't to be more than fifty to a hundred words. You can start drafting something, you see.

MR. HADLEY: That is for press purposes?

H.M.JR: Yes. The three of you have a try at drafting something.

MR. BELL: And I would stay as far away as I could from hurting this tap issue. They will have that in mind in drafting it.

Proposed Press Statement for the
Secretary of the Treasury

Secretary Morgenthau said today that he expects to sell an issue of certificates of indebtedness some time in April. This is the first time that this form of instrument -- which is limited by law to a maturity of one year -- has been offered in the market by the Treasury since 1934. The new certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The Secretary said that he was reviving this type of financing for two primary reasons: First, to provide a suitable medium of investment for current accumulations of business funds temporarily thrown out of employment because of wartime restrictions; and, second, to provide a greater fluidity to the short-term money market.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

COPY

March 18, 1942

Dear Dan:

This is a copy of the memorandum received this morning from Allan Sproul relative to the Treasury financing program which we discussed with you yesterday. I believe that it expresses in general the views of the Executive Committee of the Open Market Committee.

Sincerely yours,

(Signed) Marriner

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

Enclosure

COPY

TELEGRAM

ECCLES, CHAIRMAN,
FEDERAL OPEN MARKET COMMITTEE
C/O BOARD OF GOVERNORS

This is the statement which you requested I send to you:

"The general programs suggested by the Treasury seems to us to be incompatable with the primary objective of obtaining the largest possible amount of funds outside of the banking system. By pegging short-term interest rates at a low level or increasing the volume of excess reserves, or both, it would increase the inducement to the banks to invest in Government securities and lessen the inducement to other investors. This is the reverse of what we are trying to accomplish.

If the Treasury is not yet ready to decide upon a complete program for financing the war effort, and wishes to proceed step by step, we believe it should avoid taking steps such as those now proposed, which in combination and by implication would seem to commit it to a program involving:

(a) A pegged short rate of interest at a low level. The posting of a bill rate of .26 percent by each of the 12 Federal Reserve Banks would be such a pegging operation.

(b) Maintenance of a large volume of excess reserves. An attempt to increase excess reserves in New York would almost inevitably involve the maintenance in New York and in the country of a larger volume of excess reserves than is necessary or desirable.

(c) Use of open market issues rather than tap issues in seeking funds from investors other than banks. A statement in connection with an issue of certificates of indebtedness, stressing the fact that these certificates are offered as a medium of investment for idle business funds would imply that this is the way which has been chosen to reach non-bank investors.

We would suggest that, for the present, and until a more

complete program of financing has been determined by the Treasury, the most appropriate next step would be to increase the weekly offering of Treasury bills to at least $200,000,000 per week. If this were done, we are sure that the Federal Reserve System, through its Federal Open Market Committee, would begin building up its portfolio of bills as soon as the rate reached .25 percent and would increase its buying pressure until the rate reached .375 percent, at which rate it would hold the market, if necessary, until there had been a further determination of procedure in consultation with the Treasury. The explanation of the increased offering of Treasury bills would be the simple one that it is designed to give increased fluidity to the money market and to make excess reserves effective wherever they are located.

An offering of certificates of indebtedness could then be made in due course when additional funds are needed by the Treasury. If, however, the Treasury wishes to make some announcement concerning a future issue of certificates of indebtedness, at the same time that the Treasury bill offerings are increased, this could be done. We think it would be better not to name the rate and maturity, however, but merely to state that the certificates of indebtedness would supplement the increased bill issue in providing the money markets of the country with a type of obligation now lacking in sufficient volume to provide the needed mobility of funds.

It is our view that until there has been a further determination of a more complete program of Treasury financing, this would be the best procedure."

SPROUL.

3/17/42

March 20, 1942
11:05 am

FINANCING

Present: Mr. McKee
Mr. Eccles
Mr. Viner
Mr. Haas
Mr. Buffington
Mr. Bell
Mr. Sproul

H.M.JR: I have given this matter a lot of thought, and I appreciate that you have. I realize the time that has gone into the thing. After having given it a lot of thought and talked it over, and having gotten your people's - how you feel - the last thing I got here was this letter which you (Eccles) sent to Dan, enclosing a telegram from Alan Sproul-- (see meeting at 10:10 am)

MR. ECCLES: That was the result of the conference that we had Tuesday with your group over there and we asked Alan to send it down, because if we could prepare it - we didn't have time to send it up there and send it back again, and he and Williams agreed on this.

H.M.JR: Well, getting the benefit of what Buffington learned in the field, I can tell you how we feel here in the Treasury. What we would like to do as a starter is to start out and announce Monday that - what, a week hence?

MR. BELL: The following week, yes.

H.M.JR: That we would offer seven hundred fifty million dollars worth of certificates, not increase our bills. If you gentlemen would concur, what we would like to ask the Open Market Committee to do is this, would be to keep the bill rate approximately where it is, and to keep the long bond approximately where it is. If we are not satisfied with the way the bill rates are going, or if we are not satisfied with the way the long market is going, we will call you up and say so. If after you have been doing it a while you feel that the situation isn't to your liking, you call us up. We would like to get - and then if it went all right - just one other thing - if it went all right, some time toward the end of April we would offer another seven hundred fifty of certificates.

Then I have asked Bell to get out, if it is mechanically possible, by tomorrow night, a letter (form letter attached) to a thousand holders of fifty thousand dollars worth of "F" and "G," asking them two questions. One, if we decide to raise the limit to a hundred thousand, would they be interested; and two, what kind of funds would they use to buy the second fifty thousand. When those letters came back, we would analyze them, and they would be available to you to analyze also to see who would be interested in the second fifty thousand, and what kind of fund would they use for that purpose.

MR. BELL: Mr. Secretary, we can get them out, and we could do somewhere between ten and fifteen thousand tomorrow night if you wanted to. There are about a hundred and fifty thousand of series "G" holders, and about fifty thousand of "F" holders. We could put out between ten and fifteen thousand tomorrow night.

H.M.JR: Wouldn't a thousand be as good as ten thousand?

MR. VINER: A thousand is as good as ten thousand. A thousand would be an adequate sample.

MR. BELL: I don't think so.

MR. HAAS: I would rather take five thousand anyway.

MR. VINER: Well, of course, five thousand is better, but it is five times as much--

MR. McKEE: If you take a thousand and spread them throughout the country--

MR. HAAS: We could handle it, mechanically.

MR. VINER: I would say five thousand if you are just going to take them as they come. One thousand if you do some selection here so as to get distribution.

H.M.JR: Well, take a hundred for each Federal Reserve District.

MR. VINER: Well, I wouldn't do that. I would rather weight it more heavily in those areas where there are more large funds. That would be a distortion.

H.M.JR: Dan, you plus these people, plus any advice the Federal Reserve will offer, I would be glad to accept. Work it out.

MR. BELL: We will put it out and have a letter for you this evening after Cabinet to sign.

H.M.JR: Work it out so that instead of sitting here and saying they are interested or are not interested, they will sell securities or they won't, let's find out.

MR. VINER: Milton Friedman is an expert on sampling, and he is in your staff, isn't he, George?

MR. HAAS: He is in Blough's staff.

MR. VINER: You might ask him on this sample.

H.M.JR: Well, any way they want to work it out, just as long as you get a good sample.

MR. McKEE: May I ask, are your present restrictions on "F" and "G" on a calendar basis?

MR. BELL: Yes.

MR. McKEE: And it is lifting the lid on the calendar basis?

H.M.JR: Yes.

MR. BELL: I think we would have to change the series July 1. It is on all of the bonds and in the contracts.

H.M.JR: Change it?

MR. BELL: Yes.

H.M.JR: As of when?

MR. BELL: July 1.

H.M.JR: You couldn't do this before July 1.

MR. BELL: Not unless you put out a new series, and have the "F" and "G" run along, because they are in the hands of the agents, being sold.

H.M.JR: But you could do it?

MR. BELL: We have got quite a supply. We could have them run on - we might be able to do it by regulation.

H.M.JR: Well, Dan, can't you do what you call an over-print?

MR. BELL: Well, you see, we have got thousands of bonds in stock.

MR. McKEE: Dan, is there a fifty thousand restriction in the bond?

MR. BELL: Yes. When a man sends his bond in for redemption there is a place on the back, "I certify that I do not hold more than fifty thousand dollars in the series "G" Bonds."

H.M.JR: Couldn't it just be a regulation that anybody who bought a bond after the first of May, this year, that he is entitled to a hundred thousand?

MR. BELL: Well, we are considering that now. Mr. Broughton is going into it. We would have to, I think, send a notice to each one of the holders that we have changed the limit, and he may disregard the certification on the back of his bond when he redeems it, or consider the fifty to be a hundred thousand, or something like that.

MR. McKEE: On all holdings after January 1, 1942.

MR. BELL: That is right.

MR. McKEE: On your certificates that you propose to sell, what is it, a six months certificate at a half?

H.M.JR: Well, what the boys were talking about was a half of one percent, and then price wherever it fell.

MR. McKEE: Make the maturity--

MR. ECCLES: The thing that would price it would be the support that the Fed gave to the bill market. If we supported the bill market at the present basis of a quarter--

H.M.JR: Well, I said approximately.

MR. SPROUL: The last issue went at a little below twenty.

MR. ECCLES: Yes, so that if you - it would seem to me that the certificates, of course, will be very heavily over-subscribed. I would think that possibly the allotment, if you priced them anywhere around six months for a half, that you would possibly get a ten to one over-subscription, that they would go to a very substantial premium in relation to the maturity, because the difference between a ninety day bill and a six months certificate would not be very great in the question of interest rate, and I would think even a bill at three-eighths would be very much less preferable to a six months certificate at a half, so my point is, if we support the bill market at around, say approximately, a quarter, it would tend, it seems to me, to bring the certificates down to around three eighths for six months or it would make a nine months certificate at a half more likely in line, so that that rate would be the rate that the Fed is creating by their support. That is what it amounts to. In other words, we won't - we would be responsible, it seems to me, for whatever the rate picture is as a result of the support action and the excess reserves you have pumped in as a result of that action. That is one of the problems raised by this. Another is--

MR. McKEE: Well, put it another way. You are either putting a premium on the certificates or you are penalizing the bill rate if your differential is going to be that great.

MR. ECCLES: Yes. Well, what you do, too, in the first place there are very few - there are not enough bills to operate in in the market if you don't put any bills out now for us to support - to buy any amount of bills is practically an impossibility because of the very limited amount of bills now out. That is one of the problems.

MR. BELL: Won't some of these people that have been buying bills go into certificates.

MR. ECCLES: I think they will do both. They may hold their bills and buy their certificates in addition.

MR. VINER: If they hold their bills, you don't have to support the bill rate.

MR. ECCLES: I don't think you would. I doubt if you would get any - I think your bill rate at a quarter would possibly stay where it is. You would need very little support on it.

MR. BELL: Then if your certificate rate drops normally to the three-eighths, you wouldn't care. It might not need any support at all.

H.M.JR: Of course, what concerns me is not so much this immediate program as the longer range program. This, of course, will be largely a bank operation. The banks will be the large holders of these securities.

H.M.JR: We don't think so.

MR. ECCLES: Well, I think you will find - of course, a lot of business people will put bids in, but the banks will likewise put them in, so you will find that the business interests, because of the allotment - it may be they can't get what they want of them, and, therefore, you will find that they might have a million to invest and only land with a hundred thousand or two hundred thousand of an investment. The banks likewise would get only a part of what they want of the bills, and then possibly go into the market and try to buy them.

H.M.JR: Well, Marriner, could I just interrupt a minute? There are two things that we have in mind to make it attractive to the businesses. If, for instance, we were going to have an issue, we thought we would announce it maybe three days in advance that the issue was going to come so that these various businesses could call a meeting of their finance committee. Another thing that we might do in a case like this is give everybody up to a million dollars subscription, anybody who subscribed, give them up to a million dollars.

MR. McKEE: You won't have enough to spread it around on seven hundred fifty million dollars.

MR. VINER: Go over it if it is necessary to meet that offering.

H.M.JR: But, I mean, I am just - I mean to say, anybody that subscribes up to a million dollars would get it, and as Doctor Viner says, "If there isn't enough to go around, let it go over; and then if we go through with this, we will have all of next week to consult as to the rate and how long and the fact that the announcement will be out Monday and the people know it is coming, it will give you a full week to price the thing.

MR. ECCLES: The thing that I am very much concerned about our whole financing program and have been for quite a while, of course, is the inflationary implication, and in looking at the Canadian picture, it only strengthens my conviction that we have got to change our approach, I think, to this problem, or we are going to have a continual growth of bank deposits that are already, compared with the Canadian picture, very excessive. Here is the Canadian financing that was just done, and they put out practically a billion dollars, started for six hundred million, left the market open for three weeks, and they raised nine hundred and eighty million, nearly fifty percent over, and they allotted a hundred percent to everybody. Everybody got their allotment. But they did that - the banking picture up there had eleven percent total reserves, while we had in New York here forty-one percent alone, just the New York picture. That is their percentage. The Canadian deposit picture at the end of the year in proportion to the - taking our national income is fifteen times theirs. Their deposit picture was a billion six, or fifteen times that would be twenty-four billion. In other words, they would have had twenty-four billion if it would have - on a comparable basis with this company in size and national income, whereas we have forty-eight billion. In other words, at the end of the year we have twice the

deposit and currency that the Canadians have at this time, twice that amount, and as I say, they put this out by a great public drive. We have increased the bank holdings of our securities during the past two years thirty-three percent of the total offerings going to the banks. Thirty-three percent of the commercial banks, that is. In Canada, sixteen percent has been taken by the banks. I just don't believe we are doing the kind of a job that we have got to do to get our securities out in the public, and use the existing funds. I don't think we need at this time much of an expansion of bank deposits. I think that we have failed up to date to do the kind of a job that should be done and that needs to be done in order to get the existing supply of funds without expanding our funds at all that really could be done. In other words, if Canada can do what they can do, if we had just one-third that, we will--

H.M.JR: Well, what Canada did, Marriner, is something quite different. I mean, I am frankly - I mean, I think that money, bank deposits and all the rest of that thing and excess reserves, as far as inflation goes, at each stage it has less importance. What Canada did, I just happened to have it, because I wanted it this afternoon, when Canada's prices - they are now as follows. They are approximately together. On the first of December they put a ceiling on everything, and they began to get a drop in the cost of living. If you want to look at this thing, here it is.

MR. ECCLES: You mean that freezing--

H.M.JR: What they did on the first of December - they have licked their situation.

MR. ECCLES: But they have done it through the banking picture, because they haven't permitted the bank inflationary - the supply of money to be inflated as we have. I think that is a factor. Now, the British have done the same, and the Germans have done the same,

and I know there are a lot of people here that say the supply of funds is just not important. Well, I know as far as the people in the Fed are concerned, we don't feel that way about it. We feel that it isn't all important, but we do think it is a factor of some considerable importance.

H.M.JR: Are you familiar with that Canadian picture since they have frozen it?

MR. McKEE: Yes.

MR. SPROUL: I think so.

MR. ECCLES: They just stepped in and held wages and prices and everything.

H.M.JR: And then they got the thing down and everything has begun to drop.

MR. McKEE: Mr. Secretary, the way I feel about it, you may be pushing yourself up against a terrific wall later on in this war economy which might be leveled out by now giving it more force and effect to - engaging the present deposits in Government debt instead of some of it to the banks. I think later on as we go down the road and around the corner in this economy that you are going to have a better average for yourself in your Government debt if we start giving it that punch today. I don't know that you can wait six months or you are going to find yourself up against a terrific situation for the future. Now, that is just a personal opinion. Now, I may be just a hundred percent wrong, but I think if you are going to give your good offices toward fighting inflation as much as possible, you can't wait until it hits you in the face.

H.M.JR: Well, John, I have tried to do everything that I can, both through the Treasury and through every other agency where I could give any help or they would let me be of any help on the inflation. I just think

that under the present situation the money thing, as I say, each day becomes of less significance as there are less goods to buy. There are some other factors. What are you going to do with this gap, whether it is eleven billion or fifteen billion dollars. Unless a lot of other agencies do their job, no matter what we do here--

MR. ECCLES: Oh, I agree with that. I agree that so far as the financial end is concerned that if you don't do something with this labor thing, and this agricultural price thing, and with the right kind of taxes, that--

H.M.JR: That is what I am trying to say.

MR. ECCLES: But all I am saying is - but let's us at least say we have done everything we can; and if the other fellow fails, it isn't our responsibility.

MR. McKEE: We can't wait too long to sop up that additional eleven billion dollars. That is what I mean.

H.M.JR: I am not asking. All I want to do is to try this thing in April. And after I do the first one in April, then if it doesn't go right and something happens, I will change.

MR. ECCLES: Well, they will go right. I don't think for a minute, Henry--

MR. McKEE: I approve of - I thought you all had a complex because we did use it after the World War, and it did produce in that kind of economy higher rates the way it was done, but it wasn't necessary to do that.

H.M.JR: What has happened is, you have got to be practical, and if I can run through my story, and then you can answer me if you want to. I know they are going to say, well, I am letting the bankers dictate to me. Well, I never have since I have been here, and they

haven't particularly tried to dictate to me, but unfortunately we have gotten off to a bad start on this thing, and the bankers say to me in a very nice way, "Look what we have done for you on your Defense Savings Bonds. Look at the expense we have gone to and are going and are willing to go for you. You have not tried your 'F' and 'G.' You haven't put a campaign on yet for 'F' and 'G;'" which is true. "Let us try that before you put out a fixed issue which you exclude us from. Now, we want to help you, but in this plan which has been suggested to us, it excludes us, and we don't think it is fair." Now, in this thing, I am perfectly willing when the time comes, which it hasn't yet, to crack down and say, "God damn it, take it and like it." I hope the day will never come. It will be a very sad day for me. But they come down in a very quiet voice and say, "We don't think it is fair. Tell us where we have failed you. We have done everything we can. We are out a lot of money. We continue to do this thing. You haven't given the "F" and "G" the push, and let us give this thing a push and sop it up, but don't come along with these other two tap-issues and say, 'We are excluding you.' We don't think it is fair." I can be accused of letting the bankers dictate to me; and in the room if somebody wants to say that, it isn't going to bother me, but as I say, I think we got off on the wrong foot.

Now, all I am saying is, I would like to try this. I still want to stay on a day to day basis. If after the first one the right kind of people don't buy or we don't get the money that I hope we are going to get - I have got no assurance that the corporations will come in; and if we still don't get the kind of money which the Fed wants to get, and they have a right to get, and if we decide to increase the other thing, then we will do something else.

MR. BELL: In other words, you are--

H.M.JR: Could I be any franker?

MR. BELL: You are not excluding tap-issues by this program.

H.M.JR: I am not excluding anything.

MR. McKEE: The only statement I would like to make in answer to that is that I don't think that that is the general banker opinion and approach to this situation of yours.

MR. ECCLES: You mean the bankers that have talked to him?

MR. McKEE: "Why cut us off?" I don't think that is the general approach.

MR. ECCLES: That is the New York banks.

MR. McKEE: I don't know what you can do about the out-of-pocket expenses on your Defense Savings Bonds. I have one suggestion, but I don't know whether you want to do it. I think it can be worked without any handicap to you and supply you with funds at an earlier date, but I don't think you will find that the general opinion of the banker, because we had our Advisory Council in, and the Advisory Council agreed to this program, and they represent twelve different districts in the United States.

MR. ECCLES: Bankers.

MR. McKEE: And they are all of the banker mind.

H.M.JR: I wonder how they would feel if you asked them today.

MR. ECCLES: This was just last week.

MR. SPROUL: Let's have no misunderstanding on that. They didn't take it up and vote on it and say, "We do, or do not approve of this," so I would rather not have them drawn in and have them come back and say, "We didn't agree." I think it is clear that the Board of Governors and the

Open Market Committee, and the presidents of the twelve Federal Reserve Banks all by affirmative action did approve and agree and endorse this program. I think the Advisory Countil discussed it; and as far as the people over there could see, the majority of them seemed to be in favor of it.

H.M.JR: I will give you (Eccles) another one, but I want that for Cabinet, if I can, that chart about Canada. George, will you furnish me and Eccles with a copy and also Mr. Wallace and Nelson and Henderson?

MR. ECCLES: The primary purpose of the program was to exclude the banker. The only reason in the world for a non-negotiable issue was to prevent what otherwise would be a continued acquisition by the banks, as has been the case in the past. In other words, we - the whole idea that the Fed had in developing that program was, "Here is the one way that you can keep the banks largely out of this thing and attempt to use existing funds instead of creating new funds," and the very objection the bankers raised, of course, was the primary purpose of the type of issue that was developed.

MR. BELL: I think their main point, Marriner, was that what you are doing here is taking out of the market these funds that would go into these tap-issues.

MR. ECCLES: The funds go right back to the market.

MR. BELL: Leave the banks - no, leave the banks holding the bag as to the fluctuation of the market. We are there to support the market.

MR. ECCLES: But we were going to support the market. The idea was that the tap-issues to get the funds outside--

MR. BELL: Well, that was their point, I understood.

MR. ECCLES: Their point is, they are thinking of the past and the underwriting market. They are thinking

of the easy financing of the past.

MR. BELL: You saw what Guthrie said this morning about the dollar-a-year men who can't keep their interests separated from the government. It isn't human nature, apparently.

H.M.JR: Alan Sproul, you have been very quiet. Would you say something?

MR. SPROUL: Yes. Mr. Secretary, I don't think your program does enough. It doesn't put into the market a sufficient volume of short-term obligations to provide this mobility or fluidity of funds that we have been talking about. In so far as you are successful in selling these obligations or a large part of them to corporations, to that extent it fails to put additional short term obligations into the market which will make your present excess reserves effective. In so far as it calls upon the Federal Reserve System to maintain the present or approximately the present level of bill rates, I think you call on us to work against the kind of a program which we have had in mind, which, frankly, did contemplate some rise in short-term interest rates which would create an additional inducement for non-banking funds to come into the market and which would reduce the competition of the banks with the non-banking funds for the existing volume of short-term securities. So long as we maintain excess reserves at their present level or increase them and hold down rates, we intensify the competition between the banks and the non-bank lenders for these short term obligations, so that I think your program falls short in not putting additional bills into the market. I think it falls short in asking us to support a rate on short term obligations which we think is too low for the purpose of our longer range program now, and for my part, as a member of the Federal Open Market Committee, I would only, recognizing that you have the full and final responsibility for the financing of this war, want to do that at request from you, and reluctantly and under a form of compulsion. I think you also have to look

ahead on this financing through certificates of indebtedness to what is the next step. If we are to maintain or increase excess reserves, certificates of indebtedness that will be put out at attractive rates, you will have an obligation which may in the first instance go to non-banking lenders, but there is nothing to keep it from drifting back into the banking system.

The banks talk in there - talk of selling this to corporations, of having a call on the banks to come back and borrow on the obligation if the corporation finds itself in need of funds. It seems desirable to me that whatever we try to sell the corporations should have some holdback on its value turned into cash again, that there should be some retarding influence on their cashing it in which would be provided by the redemption features of the tap-issues we have suggested. I don't mean to suggest by that that I think you have to decide immediately to put out the tap-issues, but I think you shouldn't embark on a program which will militate against your adopting those eventually, which I think this low-rate certificate of indebtedness pressed sale on the corporations might, and I think we also have to look ahead through the war situation and the post-war situation, which goes into this question of whether it makes any difference how much credit or bank deposits are outstanding. I agree with you it doesn't make much difference now as far as inflation is concerned. Other things are much more important, but the volume of bank deposits we create through the war effort which are outstanding after the war may be a very important factor in the inflation picture, and I think we have to start as quickly as possible on methods which will hold those down as far as possible, because they are going to increase very substantially at any rate. That also introduces the question of the need for some haste. That is, if we are ever going to embark on a different program from what the banks say they want, and the corporations say they want, which is what they are used to, we have to overcome this initial reluctance about it, this initial suspicion of it, by

beginning to get them used to it now, because we haven't very much time.

H.M.JR: Well, I appreciate your frankness, and as I have listened to these discussions now for weeks or months, the fundamental difference between what you gentlemen represent and what I represent is the question of interest rates.

MR. ECCLES: Only in the short-term field.

H.M.JR: Only in the short term field.

MR. ECCLES: And that is a difference of a quarter, whether it is a quarter or a half.

MR. McKEE: And the supply has an effect on your rates.

H.M.JR: Now, I am perfectly willing to take the responsibility - I have got to take it anyway. As I have said before, we sit around and price something; and if an issue is a failure, I can't say, "I did this because Marriner Eccles or Alan Sproul advised me or John McKee advised me." It is Henry Morgenthau, Jr. that goes wrong, so in the final analysis; if the thing goes wrong, I have got to take it anyway. I am not afraid to take it. I don't do the thing lightly. I know if we decide to do this thing, which I would like to decide this morning, that I will get from you a good execution--

MR. SPROUL: There is no question of that, but as I say--

H.M.JR: ... and loyalty on this thing.

MR. SPROUL: No question of that, but as far as excess reserves and interest rates are concerned, it would be against my better judgment and my loyalty, and execution - while not effected, they would be given because you have the responsibility and have asked me to do it.

H.M.JR: Well, I am going to ask you to do it right now, and what I would like to do is, there are two things which I would like you gentlemen to decide this coming week. One, is seven hundred fifty enough? Maybe we should make it a billion. How many months? Interest rates. Also the question of a definite allotment of one million, maybe five million. I don't know. That could be discussed, how much these people want, the businesses. Maybe one million isn't enough and they should have an allotment of five million with the understanding that they would get it. As I say, it can work two ways. If asking you to hold the bill rate approximately where it is, and the long rate approximately - I am perfectly willing to have you call me any time day or night and say, "Morgenthau, it is impossible and these are the reasons why, and I want another consultation." I reserve the same right. If I am not satisfied, I would like a consultation. I want you to know that there is nothing here that we can't, after the first issue, say "Well, we would like to go ahead with the tap issues." My mind is not closed on it except as to the first step. Also I want to see what we can do with the possibility of extending the F and G's up to a hundred thousand dollars. Now, I haven't arrived at this thing lightly, but this is what I would like to do, Marriner.

MR. ECCLES: Well, I feel just like Alan does. Of course it is your responsibility. All we can do is to give the best advice that we have. We haven't, of course, considered this thing lightly either. We have been devoting an awful lot of time and a lot of very serious thought and consideration for over - for a year and the final conclusions that we came to were not a question of compromise and it wasn't that we were in agreement. It was a result of an analysis and a study of the situation and what we conceived the problem to be and the best way of meeting it. We felt after we had done that, and it was done after considerable discussion with your boys too, we spent a lot of time with your staff; that then we should present to you what were our views and of course if you have some other views it is your responsibility and we will carry out whatever program the Treasury finally

decides upon, realizing of course that they are taking the responsibility for that program and we are merely acting as the - to execute it, but as long as we have our day in court, so to speak, and express our views, then if the decision is - whatever the decision is, we of course will abide by the decision and we will do whatever the Treasury feels should be done. I mean, as long as I am here that is certainly what I would want to do. You, of course, as you say, take the responsibility and we do the executing.

H.M.JR: I will take the full responsibility. Does it upset you, John, at all?

MR. McKEE: Well, what I would like to ask, Mr. Secretary, is now your next move is c/d's. Do you now have in your mind that you are going to defer any increase in bills, even tax bills, until you see how the c/d's go?

H.M.JR: We feel here that we would like to do the c/d's first. The reason that I said while we were discussing going from seven fifty to a billion, we had originally planned in our financing plans to increase the two hundred million a week so if we don't do that in April, we would be short two hundred fifty million dollars in our estimates, but all we here felt is that we would just do this one thing in ten days.

MR. BELL: And then take another look at it?

H.M.JR: And then take another look at it, but we would like to see what kind of a bill rate we can get before we add - I don't mean a bill rate, I mean what kind of a certificate rate we can get before we put out more bills. In other words, we would like to put the certificates out on their own feet and see what happens to the bill rate. Now, I don't know. Maybe there will be just as much demand for the bills, and, therefore, the bill rate may stay where it is. Maybe there will be less demand for the bills on account of offering the certificate, and I just don't know. As soon as that is out and as soon as we see what has happened, then I would

like to sit down again, immediately after the issue.

MR. McKEE: Do you contemplate that this c/d will take the place of your tax notes to some extent?

H.M.JR: Tax anticipation?

MR. BELL: Do you mean tax anticipation or the tax date--

MR. McKEE: The tax bills - the tax notes that you have been selling in anticipation of taxes to tax payers.

MR. BELL: Not altogether. There might be people who will go into these in preference to the tax notes, but - who can't figure out their taxes, but they can always have their money invested. There might be some of that but we don't anticipate changing the tax notes.

MR. McKEE: Well, I thinkit will effect the sale of them, Dan, because this will be more or less bank deposits.

MR. BELL: It will get slightly higher rates, but not enough to make any difference.

MR. VINER: It is marketable.

H.M.JR: One thing that I hope is, just within the room here, I hope we can present a united front to the papers. Now, if you people feel that you have to say something, that this is what I want, you are just executing it, that you don't believe in it; then I would much rather have a formal statement rather than have it leak out.

MR. McKEE: Do you see any necessity for any statement from us?

H.M.JR: No.

MR. McKEE: I don't either.

H.M.JR: But rather than read it from the Wall Street Journal, I would much rather have a formal statement than to have it leak.

MR. McKEE: Do you see any need of a statement, Alan?

MR. SPROUL: No.

H.M.JR: I personally would feel very, very badly if there were any leaks.

MR. ECCLES: I think that you are going to find if no statement is made that if the Fed gives substantial support to this bill rate the market will put its own interpretation on it. They know enough about the whole philosophy here to - they will talk about it without any statement whatever. Any of these financial writers will immediately make their own story.

H.M.JR: I was going to give out something for Monday after you people had a chance to look at it, something along these lines.

MR. BELL: I have copies here.

H.M.JR: I mean something along these lines.

MR. BELL: This is on the certificates.

H.M.JR: I haven't seen it yet.

MR. BELL: It just came in. It is hot off the typewriter.

H.M.JR: I would like you to take it back and make any suggestions you would like to make on it. You see, I am taking the full responsibility there.

MR. ECCLES: Now this last where you say these business funds and so forth, the market will immediately make their own interpretation out of that and the - this is a market issue. They will conclude, I think,

that your non-negotiable issue is out and they will see the Fed operating to maintain reserves and the whole question will be - the story would be on the basis of that, that - just what Alan says in the first paragraph of his statement. This is the interpretation, that the program seems to be incompatible with the objective of obtaining the largest amount of funds outside of the banking system by pegging the short rate. That is what the conclusion would likely be. At a low level, which would in effect increase the volume of excess reserves. What I mean is that you may well get some of your financial people that would write their own stories on this.

H.M.JR: Possibly.

MR. ECCLES: So that I wouldn't want you to conclude that there was a leak, because they might interpret this. I would sooner, if there was any such a chance of your getting such an impression, that a statement be made. I would prefer no statement, but I am saying if you make no statement there is still the likelihood--

H.M.JR: You wouldn't even say this?

MR. ECCLES: I wouldn't make any statement except to this effect. I would cut the last paragraph. I would say that you are going to put this volume of bills out, that it is in conformity to the new law passed, it is what we have done before, and that it is a money market instrument to help to create fluidity in the market, and stop. Because it really is. It takes the place, in part, of bills outside the money market, is really what it does. It provides an instrument for those with funds, without regard to who they may be, banks or otherwise; because it has a certificate and it provides fluidity to your money market in a manner that bills alone don't provide and I think I would say that, but I don't believe I would add this last one, "To provide a suitable medium of investment for current accumulation of business funds temporarily thrown out of employment," and so forth, be-

cause I think the conclusion on that would be--

H.M.JR: That we are not going to do a tap issue.

MR. ECCLES: I think so.

H.M.JR: That is fair.

MR. ECCLES: I think they would conclude that right off the bat and I would leave that end of it out unless you have concluded that.

H.M.JR: I have not.

MR. ECCLES: Then I wouldn't put that in.

MR. McKEE: May I read a short paragraph that I jotted down here to see if you see any sense in it?

MR. ECCLES: I would cut the second out.

H.M.JR: Just one second, John, please. You would cut out that part first--

MR. ECCLES: I would cut that all out. "The Secretary said that he was reviving this finance to - to provide a greater short term money market," and this seems to be all right...

H.M.JR: Do you think that would be taken to mean we were shutting the door on the tap issue?

MR. ECCLES: I think so the way it was written.

H.M.JR: I don't want to do that.

MR. VINER: How about saying one medium for tap-issues? What I was thinking was this, they might think the Secretary feels he is in a jam and he has to go into these short term instruments. The only thing that saves this situation is to say--

MR. ECCLES: Everybody knows. It has been generally concluded by the financial press and the bankers and everybody that there is not enough short-term paper in the money market to provide fluidity. That has been one of the universally recognized facts by the Fed, by the bankers, and the Treasury.

H.M.JR: I think your suggestion is a good one, and let my boys digest it; and if they want to come back at you, let them come back at you after lunch. How is that?

MR. ECCLES: O.K.

H.M.JR: If they are not satisfied, let them come back later, but I don't want to give the impression that we are shutting the door.

MR. HAAS: I think it can be handled satisfactorily.

H.M.JR: I think Mr. Eccles raises a very good point, and have another look at it; and if you have got anything else, go over this afternoon and see him, Dan.

MR. ECCLES: I would like to talk just a minute on this question of the long and the short rate where our support would come in. I think that that is important to you. I would like to avoid an interpretation by the press or by the market that the Fed is undertaking a pegging operation of this bill rate at around a quarter. I think that if we could be allowed the leeway between the present bill rate which went last week up to a three-eighths rate so you have got some fluctuation with that as a peak and with the other as a floor on this picture, that that is very much more in line with a half for certificates of even six, seven, or eight months. I would like to keep a relationship between this bill rate and your certificate rate.

H.M.JR: Could I say simply - you notice I very carefully used the word, approximate. I would like to leave that to you gentlemen to use your judgement. If I am not satisfied, I would like to have the right to call you up.

MR. ECCLES: Yes. Well, that is all right. I didn't want any misunderstanding as to approximate. My idea of approximate would be with that as a top and with the other as a floor. Of course, you could always say you didn't think we are doing enough.

MR. VINER: Well, would you want that much of a range for say a matter of the next few weeks? We were thinking, I understood, of a range of that size in terms of a program for a year, but your range of freedom can be less for operations within a short period of time than for operations--

MR. ECCLES: It would depend entirely upon the amount of purchase required. In other words, if it became necessary to do substantial purchases to hold the rate at a quarter, we will say, or even three-tenths, I don't think that we ought to purchase enough to give the appearance of a pegging at some point there. Now, if a very little purchasing would hold it there, that is another thing.

H.M.JR: Haas, give Mr. Sproul that Canadian study also, will you?

MR. HAAS: O.K.

MR. ECCLES: You can see that a large operation would be considered one way by the market, and a very small amount of purchases--

H.M.JR: Well, Marriner, again you fellows study it and do what you want. If I am not satisfied, I will call you up; and if I am satisfied, you won't hear from me.

MR. ECCLES: All right, now on the long--

MR. SPROUL: Well, on that I think we ought to know if you are not going to be satisfied in advance if we let the rate go to three-eighths, then we haven't that leeway.

H.M.JR: You have got the leeway. You set what you want and use your best judgment. You are in touch with the market from minute to minute, and I am not.

MR. McKEE: Are you going to make any attempt to keep the banks out by subscriptions, out of the c/d's?

MR. BELL: It is suggested that we give preferred allotment to non-banking institutions. You can do that. I don't know whether you want to start the practice or not. We have never done it, but we do have the authority.

MR. ECCLES: You would have difficulty in New York. I think the best way to get at that - what you want to do is get some of the excess reserves out of New York and into the market, and this certificate, in the absence of additional bills, will tend to do it. This certificate will make your excess reserves picture outside, it seems to me - give it more fluidity. And if you should make your allotment on the basis of a million or two million, some point, it will cover a lot of the

smaller, middle sized banks that may come in this way that otherwise wouldn't come in, who have got excess reserves.

MR. McKEE: What about allotting it by Federal Reserve Districts according to the excesses.

MR. BELL: You can do that. As a matter of fact, when we sold our certificates during the last war we gave quotas to each Federal Reserve District based on the capital structure of the bank.

MR. McKEE: The thing that worries me, if you have some restrictions on the subscriptions of these c/d's, you put out, say, seven hundred fifty million, and all the present bidders of bills get their quota under that. We are going to have a problem to roll over your bill program at a quarter of one percent.

H.M.JR: Well, I think that is a very worthwhile suggestion, and I think it should be looked into, and also the suggestion which I threw out which I don't know whether it is worthwhile, to have allotment of one million or two or three or four, whatever you think would be right.

MR. ECCLES: The allotment both as to amount and maybe by districts.

H.M.JR: Yes. And then you have got all of next week to study that.

MR. ECCLES: Now, on the long market, I would like to mention that. Of course at the present time it is riding along in very satisfactory shape, and there is no reason to think that it won't continue to; but if for any reason it shouldn't, the question is, where should the support - should this be an attempt, for instance, on the '67-'72's or on the 2's where we had the problem before. That five hundred million of 2's was the problem at the last issue, you remember. The difference between the 2's and a quarter that was put out in the

last issue and the ones put out before the 2's were right on the par market all the time, and we bought a substantial amount of 2's. Now should we at this time - the least weakness in the market - those 2's will press right on par.

H.M.JR: This is my thought, if it would be agreeable to you. You have got kind of a curve, haven't you?

MR. ECCLES: That is right.

H.M.JR: My thought is to keep that curve approximately where it is. You may get a break here and there, but I wouldn't take the longest and try to hold that and let everything else fall by the wayside, if that would be agreeable to you gentlemen.

MR. ECCLES: Is there anything sacred about par, for instance, on the '67's or the--

H.M.JR: Not as far as I am concerned.

MR. ECCLES: That is what I wanted.

H.M.JR: My thought is simply, that curve is the line and I would like to hold it without having a breakthrough, using a military term, and have - or try to hold the end, and have the whole thing sag. I don't know whether you (Sproul) agree with that or not.

MR. SPROUL: I would say that the 2's of '51-'55 which are definitely out of line could fall below par and still maintain that line whereas two and a halfs at '67-'72, all this - this is much less likely with the lack of long term obligations in that market, they might fall below par slightly. But the line, nevertheless, would be maintained.

H.M.JR: What I am asking you in this case, is that unreasonable to keep the curve approximately?

MR. SPROUL: No, it is not.

H.M.JR: Is that the way you would like to do it?

MR. SPROUL: Yes, with the possibility that certain issues might not be held at par.

H.M.JR: Oh, I won't fight with you on that. Is that all right with you, Marriner?

MR. ECCLES: It is all right with me. Let me make this point though, that in watching that market, if one issue gets out of line, it doesn't stay out - the arbitration is such that the market itself pretty well adjusts it. The real points are at the bottom point, and the top point, and that line doesn't - can't sag, because the minute something gets out of line, it is a very short time--

H.M.JR: Well, that would fall into what I am saying here. You keep the curve approximately where it is.

MR. ECCLES: Yes. Well, all I am interested in, Alan, is that this peg out here is - my idea is to approximately figure that two and a half is the long term rate, and that is, for instance, that the '67-'72's is the longest two and a half that we have got out. Therefore, that is your bench mark at the present time. I would like to feel that there is some leeway in that market of say two or three points, from ninety-eight or ninety-nine up to a hundred and one or a hundred and one and a half, so that the market does not get the impression that that is a demand liability at two and a half, that is that we are pegging it at two and a half so that they can cash it in on demand and always get their money.

H.M.JR: Well, I don't think - on a week to week basis you need two or three points leeway?

MR. ECCLES: I don't think at the moment you do, not in a week, no.

MR. SPROUL: But as a program that may go on from week to week until it extends into months.

H.M.JR: Oh.

MR. BELL: They are thinking of a long-range program here, and I thought you were talking about just a short-range program until we get to this long-range program.

H.M.JR: I was.

MR. ECCLES: Well, I would think that during the next week unless something certainly unforeseen should develop that caused another problem - then we would have to have a conference and decide what kind of a supporting operation had to be given. That wouldn't be a normal market picture.

H.M.JR: But on a week to week thing certainly it couldn't vary two or three points.

MR. BELL: Unless you have a shock of some kind.

H.M.JR: Then it is a special situation.

MR. McKEE: Mr. Secretary, I am just a lone eagle on this part, but I would like to express my opinion, which I didn't have an opportunity the last time we met.

H.M.JR: It was passed on to me.

MR. McKEE: And that was the fact that I think the numbers of holders of Government Bonds, not the quantity, but the numbers, do not figure on a yield basis. They figure on a coupon basis. And I know from contacts with small bankers throughout this country that they have always expressed the opinion that when it gets below par, they get scared and their boards get scared, and I am very much impressed. I think the mistakes that were made were mistakes subject to conditions that we couldn't foresee, and we have got them, and we have got to live with them, and I for one am a par man. I just wanted to - and I do find myself alone.

H.M.JR: Well, normally I would be with you. I am trying not to be arbitrary or unreasonable. I would like to have my own way as to getting started. I don't think it is fair to ask for my own way to get started and then also to have it as to how the Open Market should carry it out. I think that that would be unreasonable, and I am trying not to be unreasonable, so I am asking for them to give me a good discussion, but leaving it to them how they do it. I mean, I don't think I can have both.

MR. ECCLES: Well, you are leaving it to us, but at the same time it is important, because the things are tied together. Your program is tied in very closely with our - and our discussion--

H.M.JR: But, Marriner, what I meant was, if I said you have got to hold it within these limits and you can't do this and you can't do that, then I would put in so many restrictions that it makes it - well--

MR. ECCLES: Of course, you freeze the situation.

H.M.JR: Yes, I am trying to be as reasonable and fair as I can.

MR. ECCLES: Well, we can freeze it, but that isn't what you want. You are willing to have a market - reasonable market and normal operation with the proper kind of support.

H.M.JR: What I am asking is, I am taking the responsibility for this, but as to how to carry out the objectives, I am putting it up to you fellows to do it. Is that fair?

MR. ECCLES: Is that clear to you, Alan?

H.M.JR: Is that all right?

MR. SPROUL: It is clear and fair. I will state it as I understand it. You are going to put out

approximately seven hundred fifty million dollars of certificates of indebtedness early in April, during the week of April seventh. That is without commitment as to further issues of Treasury bills, it is without commitment as to later use of tap-issues if you decide that is desirable. Our commitment or our part in it is to the best of our ability, and as we think, is best to engage in operations in the market which will prevent the bill rate from going up too rapidly and too far, and we interpret that at the present time subject to future discussion with you as putting an upper limit of three-eighths on our operations.

MR. ECCLES: Supporting in the interim, though.

MR. SPROUL: Supporting in the interim. That everything else is subject to future determination after we see how this move takes, except that with respect to the whole range of Government security prices you want to see that general curve maintained without insisting that individual issues be maintained at par or any specific figure.

H.M.JR: That is right.

MR. ECCLES: That is agreeable to me.

H.M.JR: Well, I thank you for your spirit and cooperation, and say a little prayer for me.

Canadian inflation-control program.

On December 1, 1941, after previous unsuccessful attempts to control prices, Canada put into effect an overall price ceiling as part of a far-reaching program of inflation control. This 5-part program consists of (1) a general ceiling on retail prices, with limited exceptions, (2) a ceiling on wages and salaries, supplemented by cost-of-living bonuses, (3) curtailment of public spending through taxation and war savings programs, (4) a system of industrial allocations, with prospective consumer rationing, and (5) subsidies to producers of essential farm products, to maintain supplies without increasing costs to consumers.

While it is probably too early to determine the effectiveness of the Canadian program, a levelling-out of the Canadian cost-of-living index and index of retail food prices since November 1941 may be significant. The attached chart shows the official Canadian cost-of-living index and the index of retail food prices, in comparison with similar official indexes for this country. For comparability, both are converted to an August 1939 base.

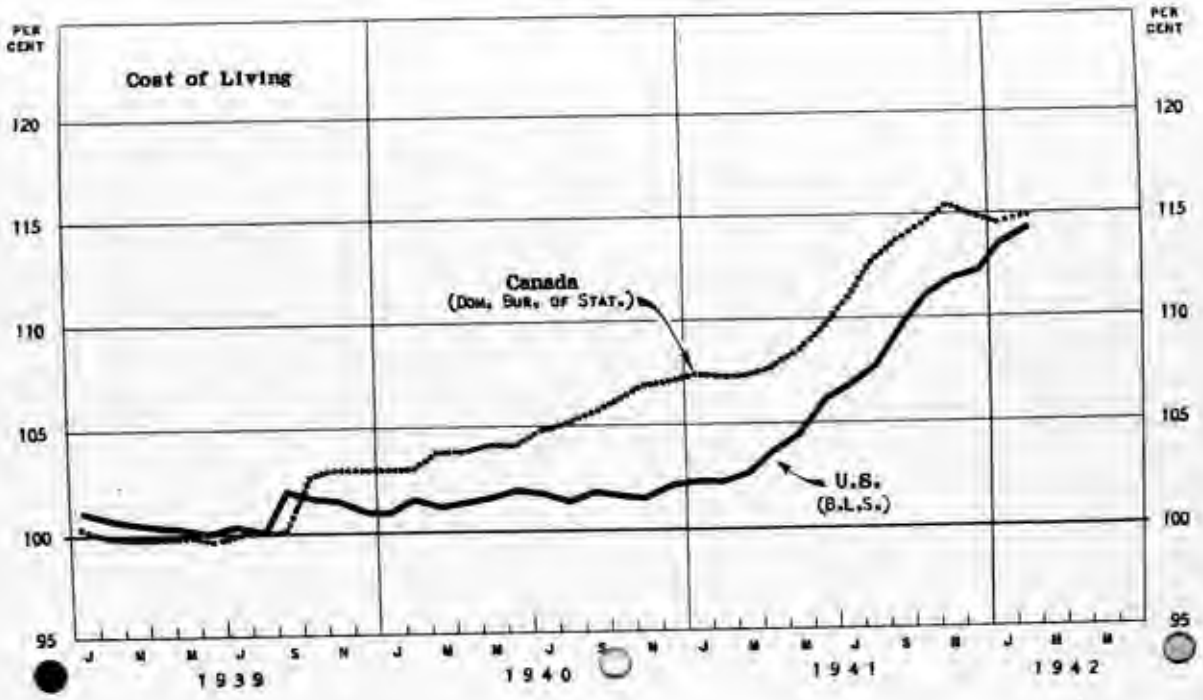
The Canadian figures (as of the 1st of each month) show that the cost of living index in February was 0.5 percent lower than last November, and that the index of retail food prices was 1.8 percent lower. (The Order in Council establishing ceiling prices was issued November 1, the base period for the ceilings having been announced on October 18.) Figures for the United States (as of the 15th of each month) show in the same period a rise of 2.2 percent in living costs and a rise of 3.3 percent in retail food prices.

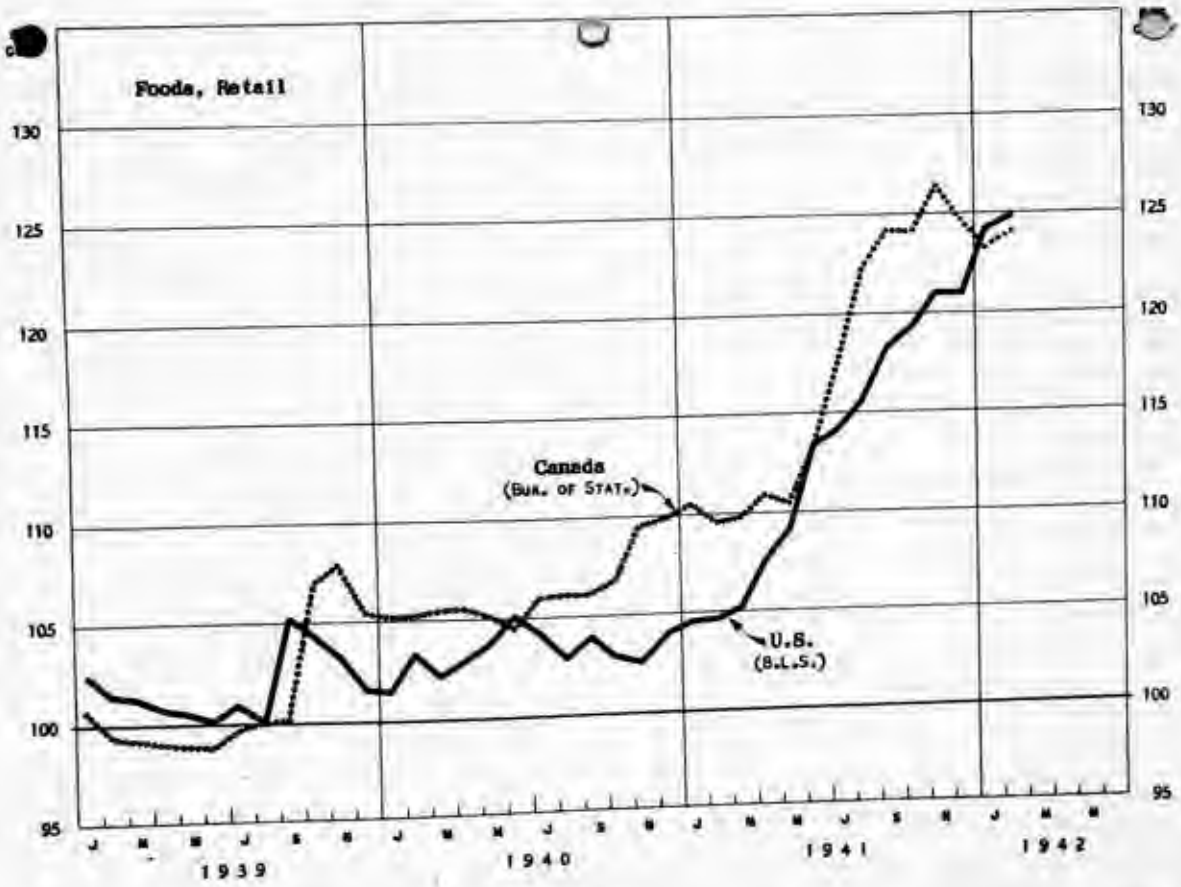
The Canadian price ceiling is essentially a rigid ceiling on retail prices, applying to all commodities (unless specifically exempted), to twelve essential services, and to the rental of all real property. A major administrative problem is the "rolling back" of squeezes between retail prices and basic costs, which is accomplished in part by the payment of various Government subsidies.

Attachment

COST OF LIVING, U.S. AND CANADA

August 1939 = 100





TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, March 23, 1942.
3/21/42

Press Service
No. 30-83

Secretary Morgenthau said today that he expects to offer two issues of certificates of indebtedness during the month of April. The first issue will be offered during the week of April 7. This is the first time that this form of instrument -- which is limited by law to a maturity of one year -- has been offered in the market by the Treasury since 1934. The new certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The Secretary said that these short-term securities will provide a greater fluidity to the money market, and will also satisfy the demands of those business funds which prefer a short-term marketable security with an interest coupon to discount securities such as Treasury bills.

-oOo-

Proposed Press Statement for the
Secretary of the Treasury

Secretary Morgenthau said today that he expects to sell an issue of certificates of indebtedness ~~some time~~ in April. This is the first time that this form of instrument -- which is limited by law to a maturity of one year -- has been offered in the market by the Treasury since 1934. The new certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The Secretary said that he was reviving this type of financing ~~for two primary reasons:~~ (~~First, to provide a suitable medium of investment for current accumulations of business funds temporarily thrown out of employment because of wartime restrictions; and, second,~~ to provide a greater fluidity to the short-term money market.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942.

TO Secretary Morgenthau

FROM George Buffington GB

In my discussions with officers of fifteen corporations in New York and Chicago, I found a desire to cooperate with the Treasury in whatever financing program is finally adopted. While the corporations interviewed represent a fair cross-section of industry, it might be desirable to extend the investigation to medium-sized corporations to gain an overall impression of business.

Apparently little has been done in recent years to educate corporations to think in terms of bills and certificates of debt. Most of the corporations, however, with whom I talked prefer fixed maturities and fixed rates of interest because they have schedules of future cash outlays and prefer to have maturities coincide with their requirements. Generally corporations with funds available are interested in certificates of debt running from six to nine months with an interest rate of one-half of one per cent. Many of them are also interested in ninety-day bills.

Wherever corporations have surplus cash and where their needs are indefinite, there seems to be a good deal of interest in tap issues; however, it would appear that the amount of idle funds available for this purpose may have been somewhat over-estimated. Before making a final decision about offering a five year tap issue to corporations, it might be desirable to examine further the requirements of business. Several corporation officials expressed a desire that the limit on "F" and "G" bonds be lifted above $50,000 annually. The opinion was also expressed that in certain instances corporations might sell general market securities in order to buy tap issues, thereby adversely affecting the general market.

Under existing conditions the demands of industry for increased working capital indicate that many corporations will resorb idle funds in the conduct of their business during 1942.

There will follow a detailed report of my various interviews.

M E M O R A N D U M

March 19, 1942.

RE: INVESTMENT OF IDLE BUSINESS FUNDS

I talked yesterday, March 18, with the following company officials at the office of the Federal Reserve Bank of Chicago:

Mr. A. B. Keller, Vice President,
International Harvester Company

Mr. W. D. Gale, Vice President in Charge of Finance,
Commonwealth Edison Company

Mr. Ellis Taylor, Vice President,
Mr. Robert Lascelles, Treasurer,
Pullman Company

Mr. Mark Kemper,
Lumbermen's Mutual Casualty Company

Mr. James Cox, Vice President,
William Wrigley, Jr., Company

Mr. W. B. Traynor, Vice President and Treasurer,
Swift and Company

Mr. R. E. Clarke, Treasurer,
Standard Oil Company of Indiana

Mr. W. L. Templeton, Treasurer,
Quaker Oats Company

Mr. Willard N. Boyden, Vice President,
Continental Casualty Company

(1) International Harvester Company. Inasmuch as their working capital requirements vary from time to time, they prefer maturities one year or less. Mr. Keller states that they are primarily interested in bills and certificates of debt because they can buy them with maturities to meet their needs. At the present time they hold a substantial amount of bills in addition to $30 million of Tax Savings Notes. If the volume of business

continues to increase at the present rate, they will let some maturities run off to produce additional working capital for war work. While it would be a deviation from their established practice, they would buy tap issues for pension funds if asked to do so.

(2) Commonwealth Edison Company. Mr. Gale stated that the company is carrying at present $75 million construction funds. To date they have not invested in Government securities with maturities longer than two years. They would be very much interested in buying certificates of debt at 1/2 of 1 per cent with maturities between six and nine months. Edison is holding $20 million tax notes. They are anxious to cooperate with the Government and hope that the bill rate will be high enough in the future to permit them to make expenses of handling after taxes.

(3) Pullman Company. The company has preferred in the past to buy general market issues maturing beyond two or three years. Since the company has reduced its outstanding capital stock, their funds available for investment have decreased materially. Since 1933, the company has spent a total of $40 million for new cars. In the future they will probably accumulate renewal funds of around $7 million annually which it may not be possible to spend, due to the scarcity of certain materials used in the construction of the new light-weight cars. The company will buy some certificates of debt but is inclined to postpone extended purchases until rates are more favorable.

They asked about the possibility of lifting the limit of "F" and "G" bonds above $50,000.

(4) Lumbermen's Mutual Casualty Company. The company is holding $20 million bills and approximately $5 million long-term Government securities. They will continue to buy bills and certificates of debt. Whenever commercial paper rates go to above 1/2 of 1 per cent, they are buyers of paper maturing from six to twelve months.

(5) William Wrigley and Company. With present taxes running last year to $4 million, the company sees little prospect of having idle funds for investment unless sugar restrictions lead to lower inventories. They are starting now to buy tax notes in anticipation of next year's taxes. They are glad to cooperate in any Government program and hope that the rate on bills and certificates of debt will cover expenses of handling after payment of taxes.

(6) Swift and Company. Until recently, Swift and Company has had excess cash balances as high as $30 million. Increases in hog prices last year caused the company to borrow from its bank. As this inventory is processed and marketed they will reduce bank loans but will probably not have substantial idle funds available for purchase of Government securities. They are interested in tap issues for pension funds. They asked about lifting $50,000 limit on "F" and "G" bonds.

(7) Standard Oil Company of Indiana. The company has approximately $60 million invested in United States Government securities--longest maturities 1945. The present indications are that increased volume of business will necessitate absorbing $15 million of idle funds in their operations during the next six or eight months. If

business continues to increase at present rates, investments will probably decrease further. They will buy some tap issues but they like the flexibility of definite maturities at fixed interest rates. They would be interested in bills maturing six to nine months at 1/2 per cent.

(8) Quaker Oats Company. In recent years, the company has had up to $15 million in idle funds invested in Government securities. Funds available for investment have decreased to $7-1/2 million recently on account of higher material costs. Because of the nature of the business, the company would prefer short paper maturing during last quarter of calendar year. Bills are not particularly attractive on account of the yield; six to nine months certificates of debt at 1/2 per cent would be attractive. They are interested in the idea of tap issues but think that type of security is not as attractive for their purpose.

(9) Continental Casualty Company. The company will buy bills and certificates of debt for casualty company; life company controlled by same interests already committed to invest 75 per cent of their available funds in long-term Governments. They are now buying 2-1/2's of 1967-72 but will buy tap issues if available and the Government desires them to do so.

I talked with the following company officials at the office of the Federal Reserve Bank of New York on March 19:

Mr. John Morton, Treasurer,
Singer Manufacturing Co.

Mr. J. Crane, Treasurer,
Standard Oil Company of New Jersey

Mr. Arthur Surkamp, Treasurer,
U. S. Rubber Company

Mr. John Rassch, Executive Vice President,
John Wanamaker

Mr. G. L. Edwards, Treasurer,
U. S. Steel Corporation

Mr. F. T. Fisher, Treasurer,
Corn Products Company

(1) Singer Manufacturing Company. The company holds $68 million Government securities--longest maturity September 15, 1948. In addition, the company holds $28 million Canadian bonds. This fund has accumulated as their operations in foreign countries have contracted. Present indications are that the company will not absorb this fund in the operation of their business unless they are asked to do a substantial amount of war work. They would buy six to nine months certificates of debt at 1/2 per cent. Inasmuch as the investment account has been created for the purpose of expanding foreign operations after the war, they do not particularly require short-term investments. They would be very much interested in five year tap issues.

(2) Standard Oil Company of New Jersey. The company has approximately $100 million in Government securities. Their total cash and investment account is divided approximately as follows:

25% in cash
50% in bills
25% in other Government obligations running from one to five years

The company holds large balances for operating subsidiaries and since demands from these subsidiaries vary, they would prefer continuing to buy bills and certificates of debt. So far this

year they have bought approximately $10 million Tax Savings Notes and by June when they can estimate more accurately their taxes for the current year, will undoubtedly increase this amount.

(3) United States Rubber Company. The company has approximately $10 million surplus cash on hand which they would invest in bills and certificates of debt. If the company should acquire additional idle funds not needed in the business for an extended period, they might buy in their 8 per cent preferred stock or redeem outstanding bonds. Anxious to cooperate with the Government in any financing program. The company acquired last year $9 million of Tax Savings Notes against a $15 million tax liability. The first installment of tax this year was paid by presenting 50 per cent notes and the balance in cash.

(4) John Wanamaker. The company has not been educated to buy certificates of debt or bills. They believe both issues desirable for their purpose and would look favorably upon tap issues for inventory reserves. They have several million dollars in excess cash available. Mr. Rassch indicates that they are possibly in a little easier position than some of their competitors due to the fact that they have never relied on bank borrowings to carry inventories. He thinks any plan the Government may develop to utilize excess business funds is advantageous and he is glad to cooperate.

(5) The U.S. Steel Corporation. The corporation has maintained a policy of not investing idle cash reserves. At the present time they have appropriated from surplus approximately $180 million which will be paid out probably within the next eighteen months.

Because of far-flung operations, the company carries seven hundred bank accounts in four hundred banks throughout the country. While action with respect to changing their present policy would necessarily have to have the approval of the Finance Committee, Mr. Edwards expresses the personal view that he thought the company would cooperate in any Government program and thought they could buy bills, certificates of debt, and tap issues. Their schedule of payment against this appropriated surplus is sufficiently flexible to permit the purchase of a tap issue, with a thirty-day redemption provision.

(6) Corn Products Company. The company has approximately $25 million cash on hand, part of which may be absorbed in the operation of business during the next year. The company will undoubtedly have to defer some maintenance thereby accumulating additional funds. They will buy $7-1/2 million tax notes in anticipation of this year's taxes but would be very much interested in bills, certificates of debt, and a five-year tap issue. They are enthusiastic about any procedure which will help the Government carry out its financing program.

3/20/40

	NAME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
1	Chase National Bank, New York	$100,270,000	$100,000,000
2	National City Bank, New York	77,500,000	77,500,000
3	Guaranty Trust Co., New York	130,000,000	10,000,000
4	Bank of America N.T.& S.A., San Francisco	61,400,000	60,700,000
5	Continental Illinois N/B & Tr. Company, Chicago	50,000,000	50,000,000
6	Bankers Trust Co., New York	37,500,000	25,000,000
7	Central Hanover Bk.& Tr. Co., New York	40,500,000	40,500,000
8	First National Bank, Chicago	37,500,000	37,500,000
9	Chemical Bk.& Tr. Co., New York	35,000,000	25,000,000
10	Manufacturers Tr. Co., New York	37,445,000	37,445,000
11	First National Bank, New York	55,000,000	45,000,000
12	First National Bank, Boston	33,500,000	25,000,000
13	Irving Trust Co., New York	51,467,000	15,000,000
14	Bank of the Manhattan Company, New York	20,000,000	20,000,000
15	J. P. Morgan & Co., New York	20,000,000	10,000,000
16	Security-First N/B, Los Angeles	23,000,000	23,000,000
17	National Bank, Detroit	15,000,000	15,000,000
18	Philadelphia Nat'l Bank, Philadelphia	17,500,000	17,500,000
19	New York Trust Co., New York	18,750,000	18,750,000
)	Cleveland Trust Co., Cleveland	16,150,000	16,000,000

	NAME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/13/42
21	Com Exchange Bank Tr. Co., New York	$15,000,000	$15,000,000
22	Northern Trust Co., Chicago	4,500,000	4,500,000
23	Mellon National Bank, Pittsburgh	18,750,000	18,750,000
24	American Trust Co., San Francisco	9,500,000	4,000,000
25	Wells Fargo Bk. & Union Tr. Co., San Francisco	7,500,000	2,000,000
26	Union Trust Co., Pittsburgh	44,750,000	30,000,000
27	Harris Trust & Svgs. Bk., Chicago	7,000,000	3,500,000
28	First National Bank, St. Louis	7,150,000	7,000,000
29	Pennsylvania Co. For Insurance Philadelphia	10,200,000	8,000,000
30	Bank of New York, New York	7,500,000	7,500,000
31	First Wisconsin N/B, Milwaukee	9,000,000	7,250,000
32	First National Bank, Baltimore	4,000,000	4,000,000
33	National City Bank, Cleveland	6,700,000	4,000,000
34	Seattle-First N/B, Seattle	6,000,000	6,000,000
35	Nat'l. Shawmut Bank, Boston	15,000,000	15,000,000
36	Detroit Bank, Detroit	3,925,000	3,885,000
37	Commerce Tr. Co., Kansas City, Mo.	5,000,000	5,000,000
38	Mercantile-Commerce Bank & Tr. Co. St. Louis	7,000,000	7,000,000
39	Anglo California National Bank, San Francisco	10,105,000	10,000,000
40	Manufacturers N/B, Detroit	3,750,000	3,750,000
41	Fidelity Union Tr. Co., Newark	6,750,000	6,750,000
42	United States N/B, Portland, Ore.	4,500,000	1,000,000

	NAME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
43	City N/B & Tr. Co., Chicago	$3,700,000	None
44	Crocker First National Bank, San Francisco	6,000,000	$1,000,000
45	Savings Bank Tr. Co., New York	16,248,500	16,000,000
46	Public N/B & Tr. Co., New York	7,000,000	7,000,000
47	Marine Trust Company, Buffalo	7,500,000	7,500,000
48	Central National Bank, Cleveland	6,890,000	2,000,000
49	First N/B & Tr. Co., Minneapolis	6,000,000	3,000,000
50	San Francisco Bank, San Francisco	5,000,000	2,500,000
51	Marine Midland Tr. Co., New York	5,000,000	3,000,000
52	Farmers & Merchants N/B, Los Angeles	3,750,000	3,750,000
53	First National Bank, Dallas	5,500,000	5,500,000
54	First National Bank, Portland, Ore.	4,000,000	4,500,000 *
55	Northwestern Nat'l Bk. & Tr. Co. Minneapolis	5,000,000	2,500,000
56	Whitney Nat'l Bank, New Orleans	4,250,000	4,250,000
57	Bank of California, N.A., San Francisco	7,000,000	7,000,000
58	First National Bank, Atlanta	4,500,000	4,500,000
59	Commercial N/B & Tr. Co., New York	7,000,000	5,000,000
60	Indiana N/B, Indianapolis	4,500,000	4,500,000
61	Riggs Nat'l. Bank, Washington, D.C.	3,575,000	3,700,000 *
62	Corn Exchange Nat'l Bk.& Tr. Co., Philadelphia	5,775,000	2,000,000
63	California Bank, Los Angeles	4,000,000	4,000,000
4	First National Bank, St. Paul	6,000,000	6,000,000

	NAME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
65	Fifth Third Union Trust Co., Cincinnati	$5,000,000	$5,000,000
66	Citizens & Southern Nat'l Bk., Savannah	3,825,000	3,825,000
67	Fidelity-Philadelphia Trust Co., Philadelphia	8,850,000	8,000,000
68	Citizens Nat'l. Tr. & Svgs. Bank, Los Angeles	4,137,500	4,000,000
69	First Nat'l Bank, Kansas City, Mo.	2,000,000	1,000,000
70	Girard Trust Co., Philadelphia	6,500,000	5,000,000
71	Brooklyn Trust Co., Brooklyn	6,400,000	6,400,000
72	First National Bank, Pittsburgh	5,250,000	3,000,000
73	State Bank of Albany, Albany	2,500,000	None
74	Wachovia Bk & Tr. Co., Winston-Salem	3,500,000	3,500,000
75	Mississippi Valley Tr.Co., St. Louis	4,050,000	4,050,000
76	Brown Brothers Harriman & Co.,New York	6,663,000	5,000,000
77	Industrial Trust Co., Providence	5,750,000	1,000,000
78	United States Trust Co., New York	14,000,000	8,000,000
79	First National Bank, Philadelphia	3,555,000	2,500,000
80	National Bank of Commerce, Seattle	2,500,000	2,500,000
81	Peoples-Pittsburgh Tr.Co., Pittsburgh	6,750,000	6,750,000
82	Merchants National Bank, Boston	3,000,000	500,000
83	Manufacturers & Traders Trust Co., Buffalo	5,500,000	5,500,000
84	Farmers Deposit N/B, Pittsburgh	7,500,000	6,000,000
85	Toledo Trust Company, Toledo	4,000,000	4,000,000

	NAME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/13/42
86	American Trust Co., Charlotte	$1,800,000	$1,800,000
87	Union Planters N/B & Trust Co. Memphis	3,500,000	3,750,000 *
88	First National Bank, Cincinnati	5,550,000	5,550,000
89	Wilmington Trust Co., Wilmington	7,000,000	7,000,000
90	Hartford N/B & Tr. Co., Hartford	4,000,000	4,000,000
91	City Bank Farmers Tr. Co., New York	10,000,000	10,000,000
92	Republic National Bank, Dallas	5,000,000	5,000,000
93	State Street Trust Co., Boston	4,237,000	1,000,000
94	Second National Bank, Boston	3,000,000	3,000,000
95	Central Trust Co., Cincinnati	3,350,000	3,375,000 *
96	Citizens Union National Bank, Louisville	2,000,000	2,000,000
97	Ohio National Bank, Columbus	3,170,500	1,000,000
98	First & Merchants National Bank, Richmond	3,000,000	3,000,000
99	First National Bank, Birmingham	4,781,000	4,750,000
100	The National Commercial Bank & Trust Company, Albany	3,250,000	3,250,000

* Apparently these banks erroneously included some reserves in certifying their capital and surplus.

3/20/42

BOSTON

E AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/13/42
st National Bank, oston, Massachusetts	$ 33,500,000	$25,000,000
tional Shawmut Bank, oston, Massachusetts	15,000,000	15,000,000
ustrial Trust Company, ovidence, Rhode Island	5,750,000	1,000,000
rchants National Bank, oston, Massachusetts	3,000,000	500,000
rtford National Bank & rust Company, artford, Connecticut	4,000,000	4,000,000
Street Trust Company, oston, Massachusetts	4,237,000	1,000,000
ond National Bank, oston, Massachusetts	3,000,000	3,000,000

NEW YORK

AME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/15/42
hase National Bank, New York, New York	$ 100,270,000	$100,000,000
ational City Bank, New York, New York	77,500,000	77,500,000
aranty Trust Company, New York, New York	130,000,000	10,000,000
nkers Trust Company, New York, New York	37,500,000	25,000,000
entral Hanover Bank & Trust Company, New York, New York	40,500,000	40,500,000
hemical Bank & Trust Company, New York, New York	35,000,000	25,000,000
anufacturers Trust Company, New York, New York	37,445,000	37,445,000
irst National Bank, New York, New York	55,000,000	45,000,000
rving Trust Company, New York, New York	51,467,000	15,000,000
nk of the Manhattan Company, New York, New York	20,000,000	20,000,000
. P. Morgan & Company, Inc. New York, New York	20,000,000	10,000,000
ew York Trust Company New York, New York	18,750,000	18,750,000
orn Exchange Bank Trust Company, New York, New York	15,000,000	15,000,000
ank of New York New York, New York	7,500,000	7,500,000
idelity Union Trust Company, ark, New Jersey	6,750,000	6,750,000
avings Bank Trust Company, New York, New York	16,248,500	16,000,000

AME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
ublic National Bank & Trust Company, New York, New York	$ 7,000,000	$7,000,000
arine Trust Company, Buffalo, New York	7,500,000	7,500,000
arine Midland Trust Company, New York, New York	5,000,000	3,000,000
ommercial National Bank & Trust Company, New York, New York	7,000,000	5,000,000
rooklyn Trust Company, Brooklyn, New York	6,400,000	6,400,000
Bank of Albany, Albany, New York	2,500,000	None
rown Brothers Harriman & Company, New York, New York	6,663,000	5,000,000
nited States Trust Company, New York, New York	14,000,000	8,000,000
anufacturers & Traders Trust Company, Buffalo, New York	5,500,000	5,500,000
ity Bank Farmers Trust Company, New York, New York	10,000,000	10,000,000
he National Commercial Bank & Trust Company, Albany, New York	3,250,000	3,250,000

PHILADELPHIA

E AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/13/42
iladelphia National Bank, hiladelphia, Pennsylvania	$ 17,500,000	$ 17,500,000
nsylvania Company for nsurance, hiladelphia, Pennsylvania	10,200,000	8,000,000
n Exchange National Bank Trust Company, hiladelphia, Pennsylvania	5,775,000	2,000,000
delity-Philadelphia Trust mpany, hiladelphia, Pennsylvania	8,850,000	8,000,000
ard Trust Company ladelphia, Pennsylvania	6,500,000	5,000,000
rst National Bank, hiladelphia, Pennsylvania	3,555,000	2,500,000
lmington Trust Company, ilmington, Delaware	7,000,000	7,000,000

CLEVELAND

ME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
leveland Trust Company, Cleveland, Ohio	$ 16,150,000	$16,000,000
ilon National Bank, Pittsburgh, Pennsylvania	18,750,000	18,750,000
ion Trust Company, Pittsburgh, Pennsylvania	44,750,000	30,000,000
tional City Bank, Cleveland, Ohio	6,700,000	4,000,000
ntral National Bank, Cleveland, Ohio	6,890,000	2,000,000
ifth Third Union Trust Company, Cincinnati, Ohio	5,000,000	5,000,000
irst National Bank, Pittsburgh, Pennsylvania	5,250,000	3,000,000
oples-Pittsburgh Trust Company, Pittsburgh, Pennsylvania	6,750,000	6,750,000
rmers Deposit National Bank, Pittsburgh, Pennsylvania	7,500,000	6,000,000
ledo Trust Company, Toledo, Ohio	4,000,000	4,000,000
irst National Bank, Cincinnati, Ohio	5,550,000	5,550,000
entral Trust Company, Cincinnati, Ohio	3,350,000	3,375,000 *
hio National Bank, Columbus, Ohio	3,170,500	1,000,000

* Apparently this bank erroneously included some reserves in certifying its capital and surplus.

RICHMOND

K AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
rst National Bank, ltimore, Maryland.	$ 4,000,000	$4,000,000
gs National Bank, shington, D. C.	3,575,000 (Reserves 302,000)	3,700,000 *
hovia Bank & Trust Company, naton-Salem, North Carolina.	3,500,000	3,500,000
rican Trust Company, arlotte, North Carolina.	1,800,000	1,800,000
rst & Merchants National Bank, chmond, Virginia	3,000,000	3,000,000

* Apparently this bank erroneously included some reserves in certifying its capital and surplus.

ATLANTA

E AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
itney National Bank, w Orleans, Louisiana	$ 4,250,000	$ 4,250,000
rst National Bank, lanta, Georgia	4,500,000	4,500,000
izens & Southern National Bank, vannah, Georgia	3,825,000	3,825,000
rst National Bank, rmingham, Alabama	4,781,000	4,750,000

CHICAGO

E AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/13/42
tinental Illinois National nk & Trust Company, hicago, Illinois	$ 50,000,000	$ 50,000,000
st National Bank, hicago, Illinois	37,500,000	37,500,000
ional Bank of Detroit, etroit, Michigan	15,000,000	15,000,000
thern Trust Company, hicago, Illinois	4,500,000	4,500,000
rris Trust & Savings Bank, hicago, Illinois	7,000,000	3,500,000
st Wisconsin National Bank, ilwaukee, Wisconsin	9,000,000	7,250,000
Detroit Bank, etroit, Michigan	3,925,000	3,885,000
ufacturers National Bank, etroit, Michigan	3,750,000	3,750,000
y National Bank & Trust mpany, hicago, Illinois	3,700,000	None
iana National Bank, Indianapolis, Indiana	4,500,000	4,500,000

ST. LOUIS

AME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
irst National Bank, St. Louis, Missouri	$ 7,150,000	$ 7,000,000
ercantile-Commerce Bank & rust Company, St. Louis, Missouri	7,000,000	7,000,000
ississippi Valley Trust Company, St. Louis, Missouri	4,050,000	4,050,000
ion Planters National Bank & rust Company, Memphis, Tennessee	3,500,000	3,750,000 *
itizens Union National Bank, Louisville, Kentucky	2,000,000	2,000,000

* Apparently this bank erroneously included some reserves in certifying its capital and surplus.

MINNEAPOLIS

ME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2½% BONDS OFFERED 2/13/42
irst National Bank & Trust Company, Minneapolis, Minnesota.	$ 6,000,000	$ 3,000,000
orthwestern National Bank & rust Company, Minneapolis, Minnesota.	5,000,000	2,500,000
irst National Bank, St. Paul, Minnesota.	6,000,000	6,000,000

KANSAS CITY

ME AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
merce Trust Company, Kansas City, Missouri	$ 5,000,000	$ 5,000,000
irst National Bank, Kansas City, Missouri	2,000,000	1,000,000

DALLAS

E AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
st National Bank, llas, Texas.	$ 5,500,000	$ 5,500,000
ublic National Bank, llas, Texas.	5,000,000	5,000,000

SAN FRANCISCO

S AND LOCATION OF BANK	AMOUNT FOR WHICH EACH BANK CAN SUBSCRIBE	AMOUNT SUBSCRIBED TO 2¼% BONDS OFFERED 2/13/42
k of America N.T.& S.A., an Francisco, California	$ 61,400,000	$ 60,700,000
urity-First National Bank, os Angeles, California	23,000,000	23,000,000
rican Trust Company, an Francisco, California	9,500,000	4,000,000
ls Fargo Bank & Union ust Company, an Francisco, California	7,500,000	2,000,000
ttle-First National Bank, eattle, Washington	6,000,000	6,000,000
California National Bank, Francisco, California	10,105,000	10,000,000
ted States National Bank, ortland, Oregon	4,500,000	1,000,000
cker First National Bank, an Francisco, California	6,000,000	1,000,000
Francisco Bank, an Francisco, California	5,000,000	2,500,000
mers & Merchants National Bank, os Angeles, California	3,750,000	3,750,000
rst National Bank, ortland, Oregon	4,000,000	4,500,000 *
k of California, N.A., an Francisco, California	7,000,000	7,000,000
ifornia Bank, os Angeles, California	4,000,000	4,000,000
tizens National Trust & vings Bank, Angeles, California	4,137,500	4,000,000
tional Bank of Commerce, eattle, Washington	2,500,000	2,500,000

* Apparently this bank erroneously included some reserves in certifying its capital and surplus.

Presented to Board on [illegible] 3/20

CONFIDENTIAL

B-1288

COMPARISON OF PAR AND BOOK VALUES OF UNITED STATES GOVERNMENT OBLIGATIONS
AS REPORTED BY STATE BANK MEMBERS DECEMBER 31, 1941

(Amounts in thousands of dollars)

	Total, all State bank members			Central Reserve city banks1/			Reserve city banks			Country banks		
	Par value	Book value	Excess of book over par (Per cent)	Par value	Book value	Excess of book over par (Per cent)	Par value	Book value	Excess of book over par (Per cent)	Par value	Book value	Excess of book over par (Per cent)
Direct obligations--total	5,805,259	5,951,466	2.5	3,299,999	3,387,602	2.6	1,493,274	1,532,081	2.5	1,011,986	1,031,783	1.9
Treasury bills	295,708	295,633	--	220,736	220,678	--	36,674	36,664	--	38,298	38,291	--
Treasury notes	1,122,264	1,120,801	-.1	728,749	726,761	-.3	247,481	247,589	--	146,034	146,451	.3
Bonds maturing in 5 years or less	694,746	715,903	3.0	500,884	517,470	3.2	118,499	121,771	2.7	75,363	76,667	1.7
Bonds maturing in 5-10 years	1,634,602	1,687,744	3.1	1,013,816	1,053,813	3.8	365,283	376,442	3.0	255,503	257,489	.8
Bonds maturing in 10-20 years	1,703,350	1,765,799	3.5	710,777	739,044	4.0	603,777	624,983	3.4	383,796	401,772	3.2
Bonds maturing after 20 years	354,589	365,581	3.0	125,037	129,336	3.7	121,560	124,632	2.5	107,992	111,113	2.8
Guaranteed obligations--total	1,541,858	1,548,275	.4	973,375	976,451	.3	311,963	313,608	.5	256,520	258,216	.7
Reconstruction Finance Corporation	726,355	726,830	.1	530,676	530,860	--	114,469	114,633	.1	81,210	81,337	.2
Home Owners Loan Corp.	390,651	393,464	.7	203,675	205,300	.8	97,629	98,130	.5	89,347	90,034	.8
Federal Farm Mortgage Loan Corporation	202,354	205,096	1.3	124,161	125,495	1.1	40,664	41,396	1.8	37,529	38,205	1.8
Other Government corporations and agencies	222,498	222,885	.2	114,863	114,796	-.1	59,201	59,449	.4	48,434	48,640	.4

1/ About 96 per cent of the total Government security holdings of this class of banks were reported by State bank members in New York City, and only 4 per cent by State bank members in Chicago.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
DIVISION OF BANK OPERATIONS,
FEBRUARY 18, 1942.

CONFIDENTIAL

COMPARISON OF PAR AND BOOK VALUES OF UNITED STATES GOVERNMENT OBLIGATIONS AS REPORTED BY NATIONAL BANKS 1/
DECEMBER 31, 1941
(Amounts in thousands of dollars)

	Total, all national banks			New York City 2/			Chicago 2/			Reserve city nat. banks			Country national banks		
	Par value	Book value	Excess of book over par (Percent)	Par value	Book value	Excess of book over par (Percent)	Par value	Book value	Excess of book over par (Percent)	Par value	Book value	Excess of book over par (Percent)	Par value	Book value	Excess of book over par (Percent)
Direct obligations--total	9,568,214	9,755,221	2.0	2,264,371	2,334,130	3.1	1,150,814	1,174,854	2.1	3,688,949	3,761,483	2.0	2,464,080	2,484,754	.8
Treasury bills	675,453	675,265	--	123,559	123,495	-.1	222,339	222,389	--	258,110	258,004	--	71,395	71,377	--
Treasury notes	1,880,132	1,886,439	.3	935,921	940,434	.5	107,969	108,184	.2	501,958	503,014	.2	334,284	334,807	.2
Bonds maturing in 5 yrs. or less	716,561	736,185	2.7	278,386	290,915	4.5	55,005	56,325	2.4	231,675	237,484	2.5	151,495	151,461	--
Bonds maturing in 5-10 years	1,934,071	1,966,265	1.7	373,620	395,916	6.0	99,111	103,978	4.9	884,188	901,391	1.9	577,152	564,980	-2.1
Bonds maturing in 10-20 years	3,578,874	3,690,358	3.1	528,088	558,524	5.8	487,634	501,545	2.9	1,567,413	1,608,998	2.7	995,739	1,021,291	2.6
Bonds maturing after 20 years	783,123	800,709	2.2	24,797	24,846	.2	178,706	182,433	2.1	245,605	252,592	2.8	334,015	340,838	2.0
Guaranteed obligations--total	2,263,262	2,283,760	.9	749,893	761,126	1.5	60,574	60,678	.2	853,974	859,353	.6	598,821	602,603	.6
Reconstruction Finance Corporation	610,636	612,017	.2	222,690	223,468	.3	32,891	32,893	--	215,354	215,653	.1	139,751	140,003	.2
Home Owners Loan Corp.	1,022,376	1,034,358	1.2	363,224	369,760	1.8	5,041	5,106	1.3	392,441	395,455	.8	261,670	264,037	.9
Federal Farm Mortgage Corporation	288,529	294,890	2.2	67,579	71,134	5.3	792	800	1.0	123,523	125,317	1.5	96,635	97,639	1.0
Other Government corporations and agencies	341,671	342,495	.2	96,400	96,764	.4	21,850	21,879	.1	122,656	122,928	.2	100,765	100,924	.2

1/ Except nonmember national banks outside the continental United States.
2/ Central reserve city banks only.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
DIVISION OF BANK OPERATIONS,
MARCH 12, 1942

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Revision of Capital Movements Reports

Because of the new situation brought on by the war we propose, with your approval, to make several changes in collecting and publishing capital movements data.

1. Instead of weekly reports we shall ask the banks to report monthly, and we shall eliminate entirely the quarterly supplementary reports. On some matters, the new monthly reports will provide fuller information than formerly, particularly on official funds. The effect of this change will be to reduce the reporting work of the banks to less than half of what they now do.

2. Instead of publishing in the Treasury Bulletin the details of weekly capital movements by countries, we shall report only the monthly total capital movements. This will reduce from fourteen pages to two pages the space in the Treasury Bulletin devoted to these reports. In addition to this saving in paper, printing, and labor, the suspension of publication of details on capital movements by countries will obviate any possibility that information on shipments can be derived from a study of capital movements.

3. If you approve of these changes, we shall put them into effect with the April issue of the Treasury Bulletin.

MEMO FOR THE SECRETARY'S DIARY

Under Secretary of War Patterson called me up at 6:00 to say that General Gross returned from Philadelphia and reported that they loaded 378 cars in one day. I gather the average heretofore to be 200, and while the arguing was going on between Somervell and Lew Douglas, the Maritime Commission's General Sullivan told his man Gross just to go in and take over and see that the ships are loaded. He offered to have General Gross call on me Saturday, but I said I didn't think it was necessary. But I think it would be a good thing for George Haas to have Tickton contact him before he goes to Philadelphia on Monday. I want Tickton to go to Philadelphia both this Monday and the following Monday, and Patterson said that was entirely agreeable to him. I also told him that whatever Tickton found in Philadelphia and reported to me that I would give a copy of this to Under Secretary of War Patterson. Please see that this is done even though I am out of town.

George Haas, I think it would be interesting to find out how many cars have been loaded each day in Philadelphia in the ships bound for Russia, starting with March 9th. I think March 9th is the day I first looked into it. If it is possible, please get those figures and keep them up to date for me until further notice. That is, the number of freight cars loaded each day into ships bound for Russia, beginning with March 9th - if that is the first day - until further notice.

Last report sent to Hopkins 3/26/42 - [illegible]
[illegible] hereof -

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current Developments in the High-grade Security Markets; Purchases of Treasury Bills Before and After the Rise in the Bill Rate

SUMMARY

(1) Prices of Treasury notes have held steady during the past three weeks, while prices of Treasury bonds have advanced from 1/2 to 1-1/2 points. Tax-exempt bonds have been stronger than taxable bonds (Chart I).

(2) The sharp rise in the bill rate has not greatly affected the distribution of bids for Treasury bills by Federal Reserve districts or by classes of bidders (Chart II). The total amount of bids has not changed materially. Holdings of Treasury bills by New York City banks have decreased, however, while holdings by banks outside of New York City have risen (Chart III).

(3) Total loans of weekly reporting member banks have remained stable since the beginning of the year. Commercial loans of these banks, however, increased by $235 millions during this period (Chart IV).

(4) The price of municipal bonds fell during February (average yields rose by 15 basis points), while the price of high-grade corporate bonds remained stable (Chart V).

I. United States Government Securities

Price changes of United States Government securities since February 26 have been mixed. Treasury notes have remained practically unchanged, while Treasury bonds have advanced steadily (Chart I). Tax-exempt Treasury bonds advanced over one point during this period, while comparable taxable bonds advanced about one-half a point.

During the past three weeks, the average yield on partially tax-exempt Treasury bonds, moving inversely to prices, has decreased by 10 basis points.

The following table shows price changes by maturity classes since February 26 for taxable and tax-exempt notes and bonds:

	Average price change February 26 - March 19		
	Tax-exempt issues	Taxable issues	All issues
	(Decimals are thirty-seconds)		
Notes			
1 to 3 years	0	- .01	0
3 to 5 years	-	+ .01	+ .01
Bonds			
5 to 15 years to call	+1.02	+ .17	+ .29
15 years and over to call	+1.14	+ .13	+1.03

II. Purchases of Treasury Bills Before and After the Rise in the Bill Rate

Did the recent precipitous rise in the Treasury bill rate from .07 percent on October 29 to .31 percent -- the highest since 1937 -- on December 31 change the distribution of Treasury bill purchases? To ascertain whether the increased yield of Treasury bills attracted a more general participation in their purchase, a study was made of the bill tenders submitted and of Treasury bill holdings prior and subsequent to the rise.

Chart II shows, by months, the proportions of bill tenders submitted by banks, bond dealers, and others compared with the rate on Treasury bills. The extent to which participation changed with fluctuations in the bill rate is summarized in the following table:

	September 1941	December 1941	March 4, 1942
		(Percent)	
Average bill rate	0.06	0.29	0.22
Proportion of bill tenders submitted by:			
Banks	83	73	86
Bond dealers	5	17	7
Others	12	10	7

As the table indicates, the proportionate participation by banks declined slightly, while bond dealers substantially increased their share when the bill rate rose from .06 to .29 percent. By March 4, 1942, however, banks were bidding for a larger share than in September, while the proportion of tenders submitted by other bidders had fallen from 12 to 7 percent. There was no important increase in the total average amount of tenders received in this period.

Tenders submitted by Federal Reserve districts are summarized in the following table:

	August and September 1941	November and December 1941	January, February, and March 4, 1942
		(Percent)	
Average bill rate	0.09	0.26	0.23
New York and Chicago	93	83	86
All other districts	7	17	14

As the table indicates, the rise in the bill rate was accompanied by only a moderate change in the distribution of the tenders by Federal Reserve districts.

Chart III shows that weekly reporting member banks increased their holdings of bills by $149 millions, while all others increased theirs by $199 millions over the entire period from August 1941 to March 1942. Banks outside of New York and Chicago increased their holdings by $266 millions; Chicago banks, by $90 millions; while the holdings of New York banks declined by $207 millions. The much greater rise in the holdings of bills than in the tenders for them of banks outside of New York City and Chicago indicates that these banks must have ultimately received a substantial portion of the bills purchased by New York City banks as well as those purchased by dealers.

III. Loans of Weekly Reporting Member Banks

There has been little net change in the volume of total loans of weekly reporting member banks since the beginning of the year (Chart IV). Commercial loans, however, have risen steadily, the increase since the third week in January amounting to $235 millions. Non-commercial loans declined about the same amount, most of the decline occurring at the beginning of the year. The rise in commercial loans is interesting, for it has been argued that the curtailment of peacetime production would increase idle cash balances of business enterprise which could be used to decrease bank loans. Apparently, whatever tendency there has been in this direction has been more than compensated for by the needs of industries engaged in wartime production.

Chrysler Corporation, for instance, recently negotiated a huge revolving credit arrangement for $100 millions or more to be borrowed over a 5-year period. Other wartime industries have also received substantial bank credits.

IV. Other Domestic High-grade Securities

The prices of high-grade corporate bonds remained stable during the last month. The Treasury average yield of 5 high-grade corporate bonds did not vary by more than 2 basis points during this period. Municipal bond prices, however, were down. The Bond Buyer's average yield of 11 high-grade municipal bonds showed a rise of 15 basis points to 2.19 percent from February 1 to March 1 (Chart V).

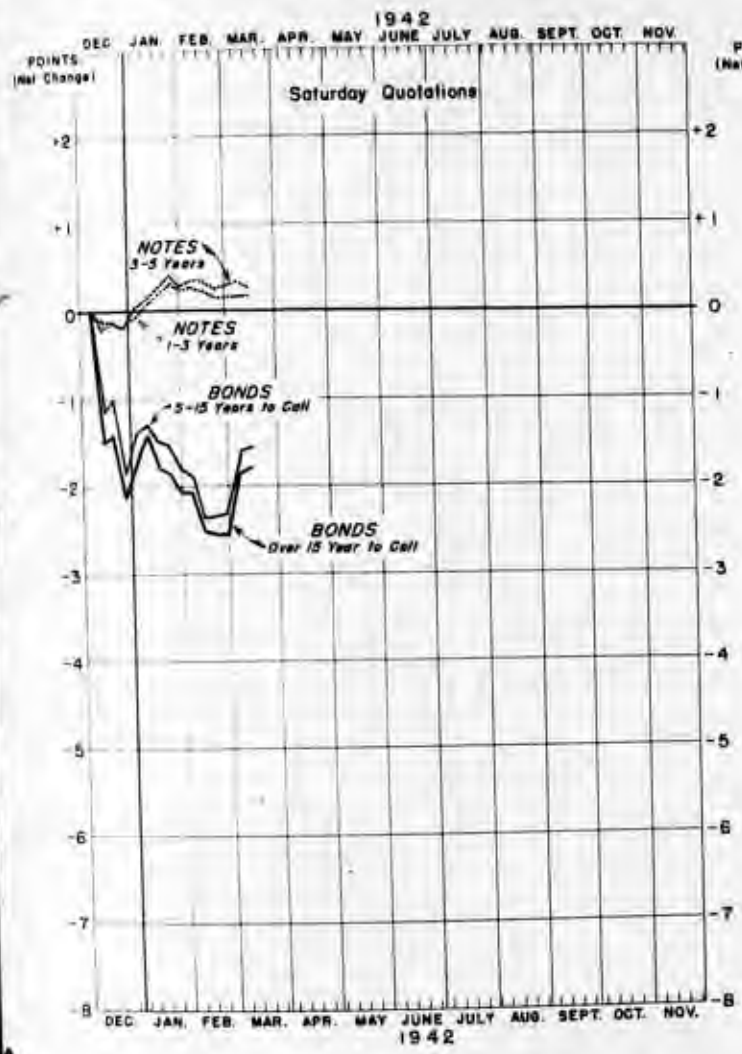
The volume of new bonds publicly offered on the New York market has risen. The total for the three weeks ending March 13 was $68 millions, as compared with $32 millions of new offerings during the 3 weeks ending February 20. Most of this rise occurred during the week ending March 6 when $32.5 millions of first mortgage bonds were offered by the Pennsylvania Electric Company and $15 millions of debenture bonds by the Schenley Distillers Corporation.

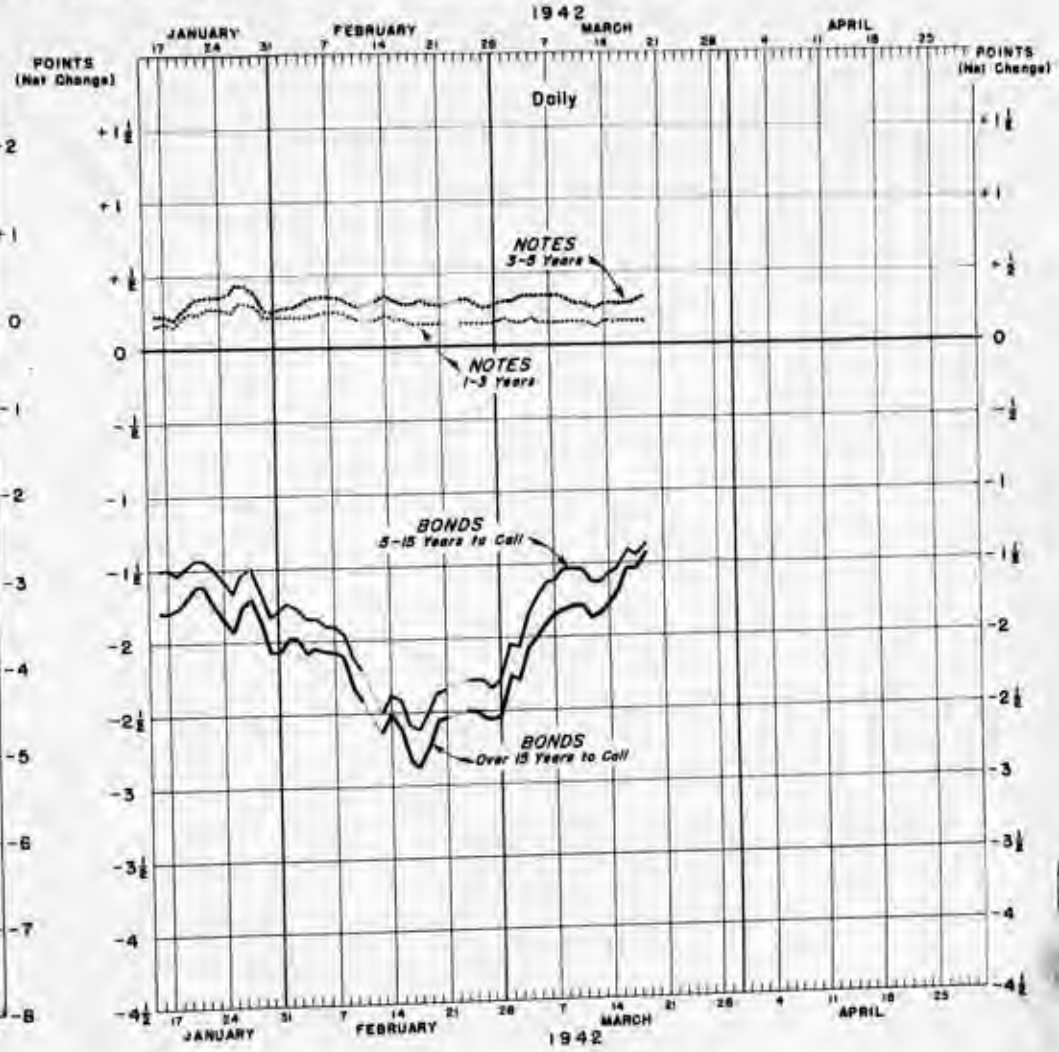
Attachments.

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from December 6, 1941 Price of Each Maturity Class





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

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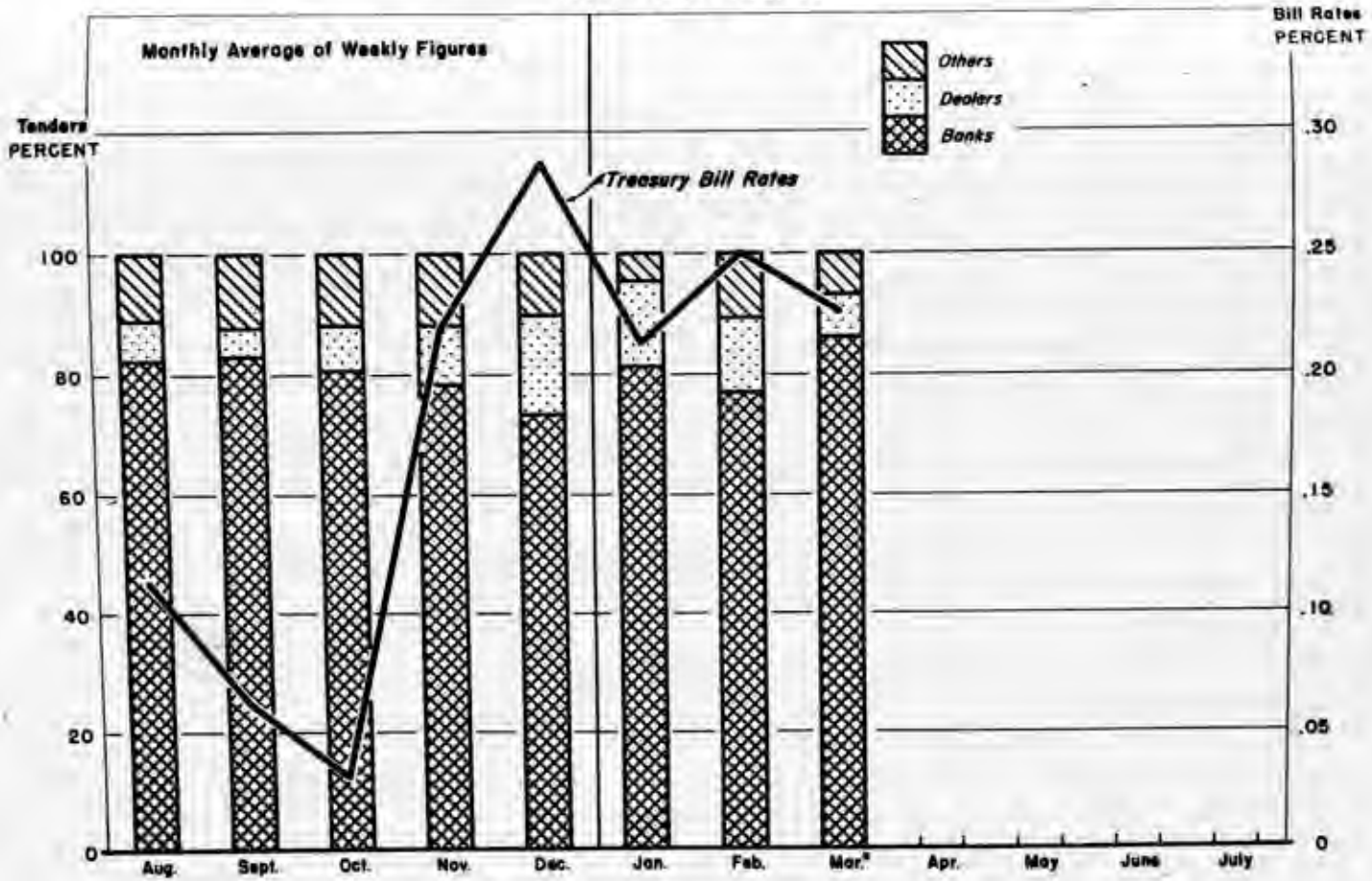
COMPARISON OF PERCENTAGE DISTRIBUTION OF TREASURY BILL TENDERS WITH BILL RATES

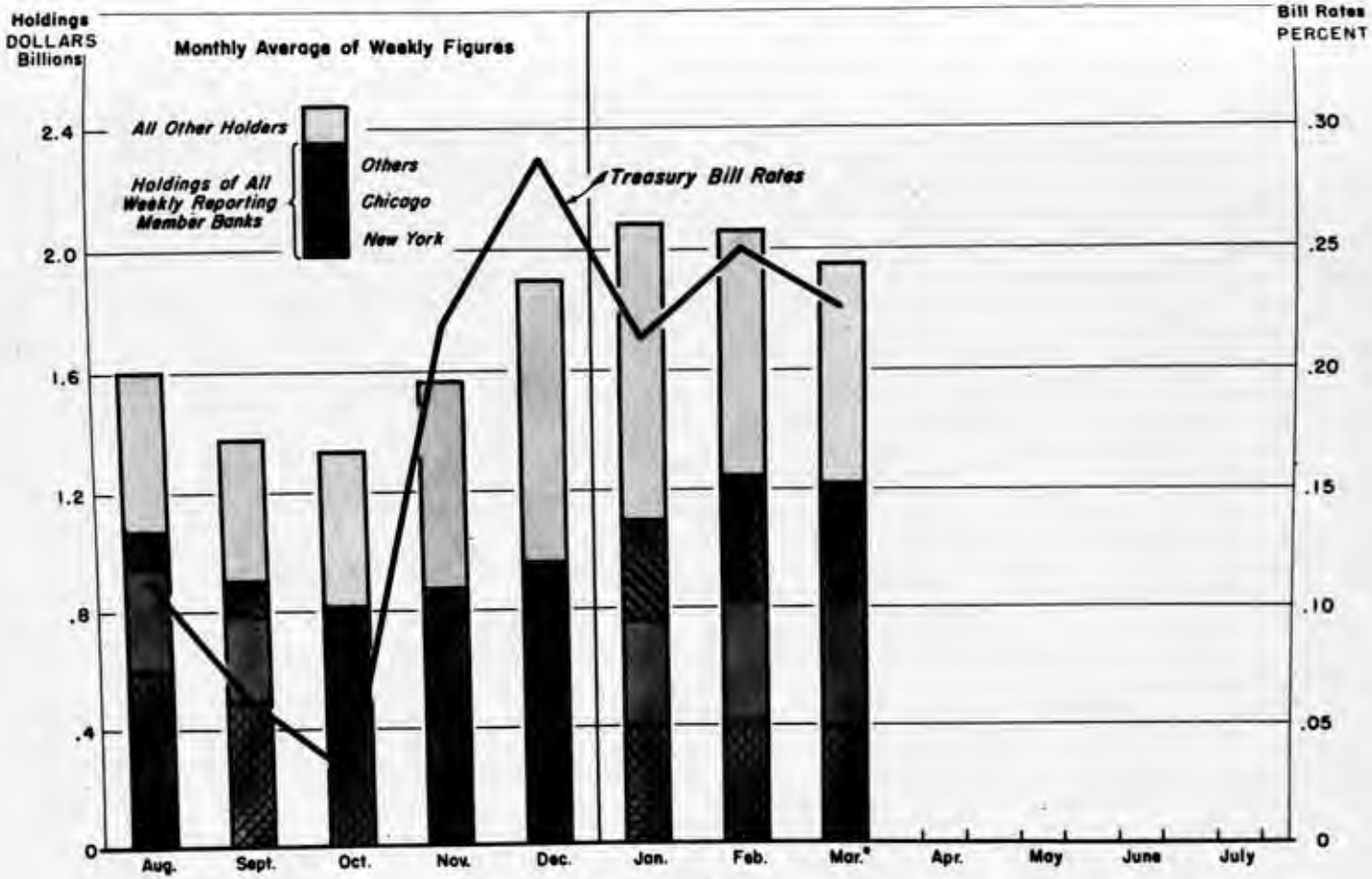


*First Week only

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

Chart III

COMPARISON OF TREASURY BILL HOLDINGS WITH BILL RATES



*Average of First Two Weeks only

Office of the Secretary of the Treasury
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Chart IV

LOANS – WEEKLY REPORTING MEMBER BANKS

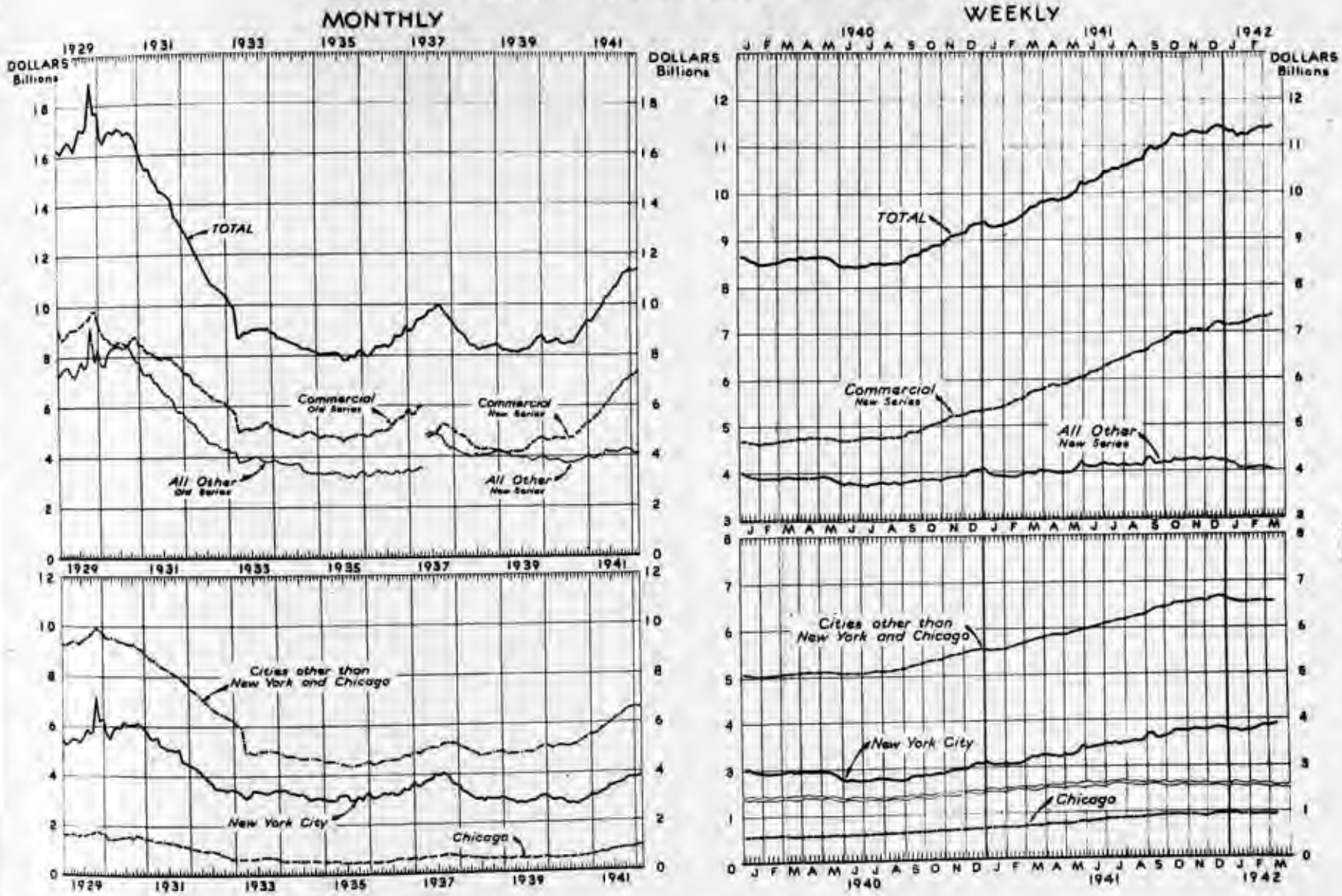

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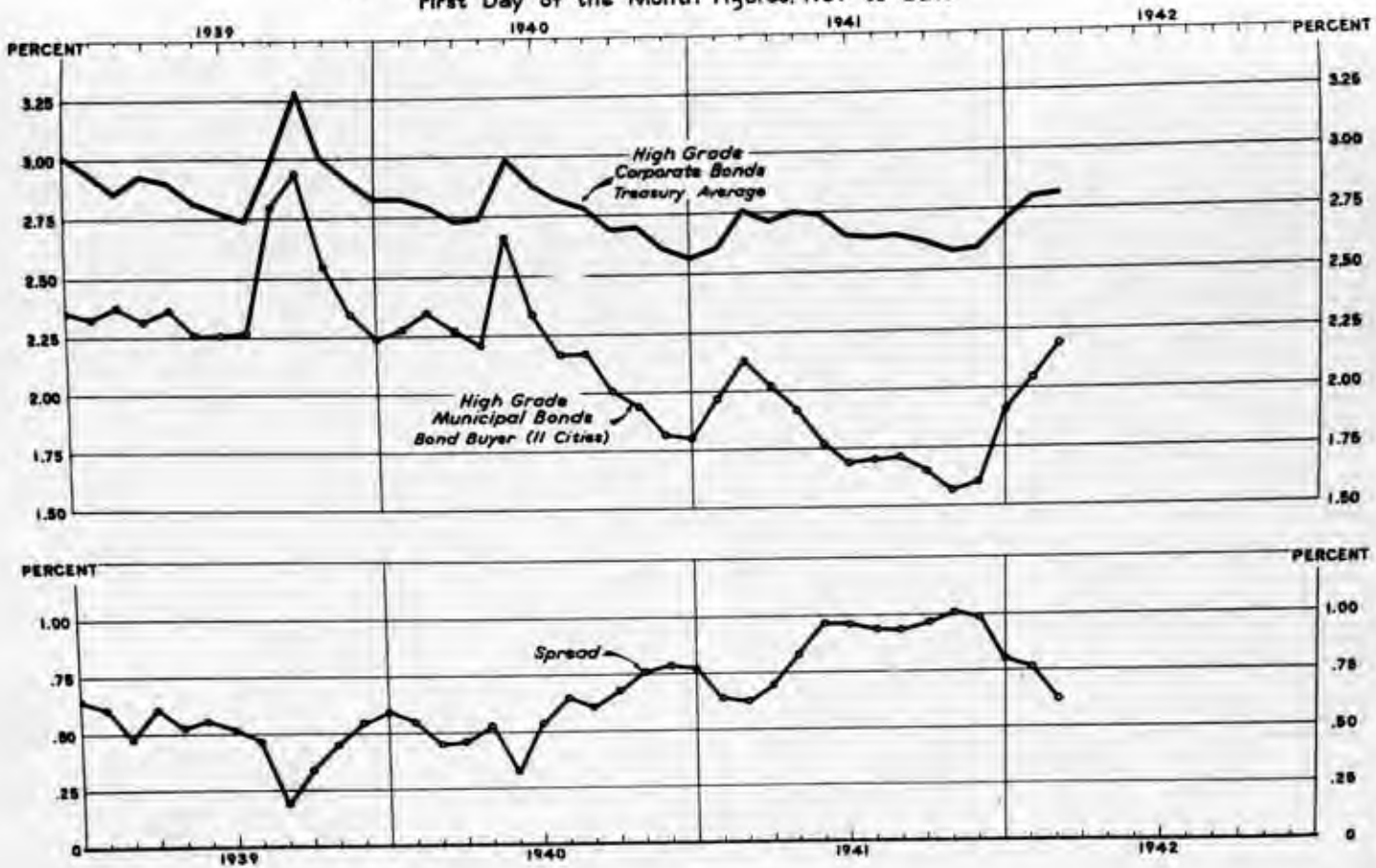
Chart V

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

First Day of the Month Figures, 1939 to Date



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

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March 20, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in Mr. White's Office
March 20, 1942
12:15 p.m.

Present: Mr. D. W. Bell
Mr. White
Dr. Viner
Mr. B. Bernstein
Mr. Southard
Mr. Friedman

The matter of the financial aid to China was reviewed and the question of whether the State Department's suggestion of an exchange of letters should be adopted was discussed. It was agreed that an exchange of letters, including the draft prepared by Dr. Viner, was not desirable. Dr. Viner agreed, saying that he was opposed to any exchange of letters and had merely prepared a draft because he was so instructed. It was also agreed that the Secretary should present a memorandum to the President and that the latter should decide the issue. A draft of a memorandum to the President was gone over and a final draft agreed on by those present.

A-1 is my preference
A-2 is Hamilton's suggestion of a reply. I would dispense with the reply unless the Chinese volunteered it.
B-1 and B-2 are Hamilton's suggestions.

(Viner's comments)

DRAFT OF LETTER FROM THE SECRETARY OF THE TREASURY TO THE CHINESE MINISTER FOR FOREIGN AFFAIRS.

My dear Mr. Minister:

You, of course, know that under the governmental procedure of this country I am expected as Secretary of the Treasury to make periodic reports to the Congress in regard to my custody and disposition of government funds and the manner in which I have carried out the financial responsibilities assigned to me by the Congress. To assist me in doing this in relation to public law no. 442-77th Congress, approved, February 7, 1942 and public law no. 452-88th Congress, approved, February 12, 1942, providing for the rendering of financial aid to China, I should appreciate it if the Government of China would be so good as to inform me from time to time and in so far as is practicable with respect to the uses which the Government of China will have made and will contemplate making of the funds placed at its disposal by the Government of the United States pursuant to the public laws mentioned, and also with respect to the results accomplished thereby in connection with our common war effort.

I wish to assure you and through you the Government of China that appropriate officials of the Government of the United States will be available at any time, upon request of the Government of China, to confer regarding any technical problems which may arise in connection with the financial aid being extended to the Government of China by virtue of the agreement which we are signing today, and such officials will be prepared also, upon request, to exchange information and suggestions regarding ways and means of most effectively applying the funds under reference toward achieving the purposes which are commonly envisaged.

DRAFT OF LETTER FROM THE CHINESE MINISTER FOR FOREIGN AFFAIRS TO THE SECRETARY OF THE TREASURY.

My dear Mr. Secretary:

I have your letter of today's date in which you state that, with a view to assisting you in making periodic reports to the Congress in relation to public law no. 442—77th Congress, approved, February 7, 1942 and public law no. 453—77th Congress, approved, February 12, 1942, providing for the rendering of financial aid to China, it would be appreciated if the Government of China would inform you from time to time and in so far as is practicable with respect to the uses which the Government of China will have made and will contemplate making of the funds placed at its disposal by the Government of the United States pursuant to the public laws mentioned, and also with respect to the results accomplished thereby in connection with our common war effort.

Under authorization from my Government, I am glad to assure you that the Government of China will be glad to assist you in the manner indicated.

I am glad to assure you also that the Government of China will expect from time to time and as occasion arises to avail itself of the kind offer contained in the last paragraph of your letter under reference to confer and to exchange information and suggestions in the manner suggested.

DRAFT OF LETTER FROM THE SECRETARY OF THE TREASURY TO THE CHINESE MINISTER FOR FOREIGN AFFAIRS.

My dear Mr. Minister:

As we proceed to the signing of the agreement making available to the Government of China the financial aid provided for in public law no. 442—77th Congress, approved, February 7, 1942, and public law no. 452—77th Congress, approved, February 12, 1942, I wish to assure you and through you the Government of China that the Government of the United States desires, as a manifestation of the cooperative spirit which underlies the common war effort of China and the United States, to make available, upon request of the Chinese Government, appropriate officials to confer from time to time regarding any technical problems which may arise in connection with the financial aid to be extended to the Government of China by virtue of the agreement which we are signing today, and upon request, to exchange information and suggestions regarding ways and means of most effectively applying the funds under reference towards achieving the purposes which are commonly envisaged.

DRAFT OF LETTER FROM THE CHINESE MINISTER FOR FOREIGN AFFAIRS TO THE SECRETARY OF THE TREASURY.

My dear Mr. Secretary:

I acknowledge receipt of your letter of today's date in regard to the extension to the Government of China of the financial aid provided for in public law no. 442—77th Congress, approved, February 7, 1942, and public law no. 452—77th Congress, approved, February 12, 1942, and I wish to assure you that the Government of China also desires, as a manifestation of the cooperative spirit which underlies the common war effort of China and the United States, to designate appropriate officials to confer from time to time regarding any technical problems which may arise in connection with the financial aid to be extended to the Government of China by virtue of the agreement which we are signing today, and to exchange information and suggestions regarding ways and means of most effectively applying the funds under reference toward achieving the purposes which are commonly envisaged.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Mrs. McHugh

FROM Mr. Kuhn

The labor papers were sent to Secretary Morgenthau's house last night as he requested.

J. K.

March 19, 1942

Ferdinand Kuhn

Secretary Morgenthau

Will you please let me have as soon as possible any editorial comment in any of the Labor papers on our Tax Program. The day you were sick, we had a meeting in my office in regard to who ~~such~~ should handle the tax publicity. I suggest that you ask Miss Chauncey to let you read that part of the 9:30 meeting that has to do with that discussion, or all of it if you wish. You will see from the transcription that as a result of that, Paul was authorized by me to go ahead and get somebody. If you have any questions to ask in regard to this, I will be glad to discuss it with you.

FEDERAL WORKS AGENCY
WORK PROJECTS ADMINISTRATION
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HOWARD O. HUNTER
COMMISSIONER OF WORK PROJECTS

The Honorable
The Secretary of the Treasury

My dear Mr. Secretary:

This will acknowledge your letter of March 13, 1942, relative to the participation of New York City WPA bands and orchestras in the promotion of Defense Bonds and Stamps sales.

All music units of the Work Projects Administration are being urged to cooperate with Treasury officials by offering their services to aid in the sale of Defense Bonds and Stamps. In many states Music Project orchestras are giving concerts to which admission is obtained by the purchase of a Defense Stamp. As an example of this policy, a concert was given at Eastwood Park, Detroit, Michigan, on February 8, at which were sold $6,400 in Bonds and $500 in Stamps.

While it is believed that the regrettable experience of your representatives with the New York City Music Project was due to an excessively literal interpretation of administrative regulations, I wish you to know that the Work Projects Administrator for New York City has been advised of our policy in promoting Defense Bond and Stamp Sales through the use of WPA bands and orchestras.

I can assure you that complete cooperation from the New York City Music Project will be available from this date.

Very truly yours,

Commissioner

March 20, 1942

TO: HAROLD N. GRAVES

SUBJECT: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

PAYROLL SAVINGS

The Payroll Savings Plan has been installed by more than 40,000 concerns throughout the nation. This means that approximately 18,000,000 workers now are able to buy bonds through the Payroll Savings Plan. Seventy-three percent of all concerns employing more than 500, and forty-seven percent of all concerns employing between 100 and 499 workers, have installed the plan.

Thirteen states report that all concerns employing more than 500 workers have installed plans. States that have completed this first major objective are: Arizona, Kansas, Maine, Missouri, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Oregon, South Dakota, Wisconsin and Wyoming.

3/30 3/23

PAYROLL SAVINGS (Continued)

Other states rapidly approaching this goal are: Michigan, Minnesota, Southern California, New Jersey, Vermont, Virginia and Idaho.

Kansas and Wyoming are the only two states to report that all firms in the 100 to 499 group have installed plans.

Arrangements are being completed by the Division of Research and Statistics, Treasury Department, whereby State Administrators will receive microfilm copies of the Payroll Savings monthly sales reports from companies which have plans in effect.

The War Department has issued a circular stating that in the immediate future a "campaign will be undertaken among all members of the military establishment for the voluntary pledges to buy Defense Bonds and Stamps by means of authorized deductions in pay."

The United States Maritime Commission has notified all ship yards working on contracts on a cost-plus-fixed-fee basis, that clerical expenses entailed in administering payroll savings plans are reimbursable.

PLEDGE CAMPAIGN

Massachusetts will follow Oregon as the second state to launch the Pledge Campaign. The Massachusetts canvass will start on March 30. Tentatively the following dates have been

PLEDGE CAMPAIGN (Continued)

selected by other states for inauguration of the Pledge Campaign:

April 6: Arizona, Colorado, Idaho, Kansas, New Mexico, Utah, Vermont, Virginia and Wyoming.

April 7: South Carolina.

April 10: Illinois.

April 12: Indiana, North Carolina, and Vermont.

April 17: Florida.

April 22: California and Washington.

May 10: Georgia.

The Secretary of Agriculture has advised chairmen of the United States Department of Agriculture War Boards that they should upon request, be prepared to cooperate with Defense Savings Staff State Administrators in conducting the canvass of farm families undertaken as part of the Pledge Campaign. State Administrators have been so advised in a field memorandum.

RETAILERS

Copy of a digest of the proceedings of the meeting of the Retailers' Advisory Committee is attached.

Also attached is a booklet describing a Payroll Savings Plan used by the Bonwit Teller Company which was one-hundred percent successful. The Retailers' Advisory Committee has completed arrangements with the American Booksellers Association, Inc. to promote sale of bonds and stamps to book shop

RETAILERS (Continued)

customers. A copy of the Bookseller's Bulletin describing this plan is attached.

SPECIAL

The Postal Telegraph Company has drawn up a detailed program of activity to promote sale of bonds and stamps. Postal Telegraph officials forwarded a portfolio outlining their plans. (Copy attached.)

BUSINESS PUBLICATIONS

Reports have been received from 516 business publications, with a total circulation of 3,581,153, advising they will use the Payroll Savings advertisement Release No. 3 in full page size.

COMPANY PUBLICATIONS

Preliminary reports have been received from 153 company publication editors advising they will use material on Payroll Savings in their April issues.

A portfolio summarizing results of the Payroll Savings promotion in business publications, company publications, and labor publications from November 15 through February 15, is attached.

PRESS

Cuts and mats of the Minute Man were mailed to all baseball score card publishers in the Minor Leagues this week.

Arrangements for publication of Defense Savings slogans and emblems in Major League score card publications are being made. Plans also are being worked out for ball park billboard space and for opening game ceremonies emphasizing baseball clubs adopting the Payroll Savings Plan.

The nation's Free Lance Photographers have offered their services to the Defense Savings Staff in obtaining essential photographs. Copy of The Free Lance Photographer's Bulletin is attached.

Copy of a brochure sent to all college publication editors is attached.

Also attached is a scrap book showing the activities of the United States Senatorial Minute Men; sample returns of clippings on use of the Liberty Limericks feature; and a copy of an editorial on Defense Bond paid newspaper advertising serviced to all labor newspapers by the Federated Press, one of the two independent labor press services.

LABOR PRESS

Through the loan by President Dubinsky of the International Ladies Garment Workers Union of his staff photographer, Harry Rubenstein, the Labor Press Section has secured during

LABOR PRESS (Continued)

the last three weeks more than 60 pictures showing labor cooperation in the Defense Savings Program. These photographs will be used for daily newspapers, for features and for the labor press.

Attached are copies of current issues of the AFL News Service and of the CIO News, showing Defense Bond "ears" used for the first time.

RADIO

Nationwide broadcasts by the following Minute Men were made this week over the National Broadcasting Company, the Blue Network, and the Columbia Broadcasting Company:

Alfred E. Smith, Walter Gifford, Rabbi Stephen S. Wise, David Dubinsky, David Sarnoff, Virginia C. Gildersleeve, Helen Menken.

Mutual Broadcasting System will begin Minute Men broadcasts on a regular basis next week.

The Payroll Savings Plan has been installed by 408 of the nation's 870 radio stations. Of these, 313 report 100 percent membership.

The fifteen minute transcription series "Treasury Star Parade" is now being broadcast three times weekly over 714 radio stations throughout the nation.

Special Defense Savings announcements were wired to all radio stations urging bond purchases in a news tie-up with General MacArthur's arrival in Australia. (Copy attached.)

NEWSPAPER CARRIER BOYS

Reports from 847 newspapers show that newspaper carrier boy sales of the ten cent Defense Savings Stamps to date total $18,290,733. This is an increase of $2,628,028 since the returns of March 12. It represents the largest number of stamps sold by newspaper carrier boys in any one week since the plan was started last November.

DIRECT MAIL

Total sales of bonds by direct mail through March 18 total $24,436,878. This is an increase of $969,890 since March 4.

NEWSREEL CREWS

The Defense Savings Staff Newsreel crews this week photographed Bond purchasing activities in Illinois, Iowa, Indiana, Oklahoma, Arkansas, Mississippi, Washington and Oregon.

ENTERTAINMENT

Lucy Monroe's Minute Man songfest in St. Petersburg, Florida, was attended by 15,000 persons, and 5,000 others were turned away for lack of space. Bond and Stamp sales at this gathering totaled $10,000.

Simone Simon appeared as guest artist at Bond rallies in Columbus, Ohio, on Friday, March 20.

The Audrey Kargere Defense Bond doll show is appearing this week in Joliet, Illinois.

ENTERTAINMENT (Continued)

John Garfield will appear at a Bond sales rally in Reading, Pennsylvania, on Saturday, March 21.

VICTORY HOUSES

The Los Angeles Victory House located at Pershing Square reports it has passed the million dollar mark in sales of Bonds and Stamps.

Victory Houses have been built in Allentown and York, Pennsylvania, and another will be in operation in Baltimore by April 16.

ADVERTISING

The Defense Savings Staff has arranged through the Meyer Both Company for a monthly mat service of Bond and Stamp advertising material to 5,400 daily and weekly newspapers starting with the July issue of the Meyer Both Service.

A full page in that and each succeeding issue will be given over to Bond material. The front cover of the July issue of the Meyer Both "Feature Service" also will be devoted to Bonds.

In addition to this free publication, preparation of mats and distribution of material, the Meyer Both Company will print and distribute monthly at their own expense, a four to eight page booklet of "Bond Promotion Ideas for Retailers". This booklet will be sent to the eleven Meyer Both lists of advertisers and newspapers, (approximately 7,500).

The Meyer Both Company has also agreed to distribute whatever advertising portfolios we may wish to get to newspapers.

THE SECRETARY OF THE TREASURY
WASHINGTON

March 20, 1942

TO THE OWNER OF SAVINGS BONDS ADDRESSED:

The sales of Series F and Series G Savings Bonds since these bonds were made available last May, and particularly since this country entered the war, have been very gratifying. We are appreciative of your interest in these securities as evidenced by your purchase of them.

The Treasury is now considering raising the limit from the present $50,000 of Series F or Series G Bonds, or a combination of the two, which may be issued to any one person during any one calendar year to some higher figure, possibly $100,000.

It would be helpful in reaching a decision on this point to know whether you would be interested in buying more than $50,000 of these bonds, if the limit were raised, and if so, would the sources of funds be from idle balances, liquidation of other investments, or current income.

A prompt reply will be very much appreciated.

Sincerely yours,

H Morgenthau Jr.

Secretary of the Treasury

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

(In thousands of pieces)

	Number of pieces sold this day	Number of pieces manufactured this day	Stock on hand at close of day	IBM deliveries this day
Mar. 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	-
15	none-closed	none-closed	26,384	-
16	271	300	26,413	-
17	144	300	26,569	-
18	148	300	26,721	650
19	160	300	26,861	-

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

March 20, 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 Sixteen Business Days of March, February and January 1942
(March 1-19, February 1-19, January 1-19)
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	$ 55,342	$ 63,391	$102,663	-$ 8,049	-$ 39,272	- 12.7%	- 38.3%
Series E - Banks	160,158	234,408	297,108	- 74,250	- 62,700	- 31.7	- 21.1
Series E - Total	215,500	297,799	399,771	- 82,299	- 101,972	- 27.6	- 25.5
Series F - Banks	26,146	36,565	42,355	- 10,419	- 5,790	- 28.5	- 13.7
Series G - Banks	120,491	187,638	171,700	- 67,147	15,938	- 35.8	9.3
Total	$362,136	$522,003	$613,826	-$159,867	-$ 91,823	- 30.6%	- 15.0%

Office of the Secretary of the Treasury, Division of Research and Statistics. March 20, 1942.

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

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

UNITED STATES SAVINGS BONDS
Daily Sales - March, 1942
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series 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
16	4,464	13,193	1,415	8,693	23,301	17,658	1,415	8,693	27,766
17	2,967	6,384	1,015	2,561	9,961	9,351	1,015	2,561	12,927
18	2,552	7,097	1,201	9,433	17,731	9,650	1,201	9,433	20,283
19	2,559	7,911	1,019	5,527	14,457	10,470	1,019	5,527	17,016
Total	$ 55,342	$160,158	$ 26,146	$120,491	$306,794	$215,500	$ 26,146	$120,491	$362,136

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

March 20, 1942.

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

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Secretary Morgenthau

FROM George Buffington GB.

The following list shows "The New Spirit" bookings for the week ending March 15, 1942, and the total to date:

Albany	28
Atlanta	113
Boston	83
Buffalo	29
Charlotte	68
Chicago	27
Cincinnati	69
Cleveland	58
Dallas	62
Denver	20
Des Moines	14
Detroit	73
Indianapolis	54
Kansas City	44
Los Angeles	114
Memphis	43
Milwaukee	48
Minneapolis	43
New Haven	13
New Orleans	54
New York	156
Oklahoma City	46
Omaha	68
Philadelphia	113
Pittsburgh	102
Portland	33
St. Louis	63
Salt Lake City	38
San Francisco	76
Seattle	42
Washington, D. C.	64

Total Week Ending March 15	1,858
" " " " 8	2,139
" " " " 1	2,041
" " " February 22	2,015
" " " " 15	1,942
" " " " 8	1,800
GRAND TOTAL	11,795

March 20, 1942

My dear Walter:

In reply to your letter of March 19th, the Treasury's tax staff has made an analysis of Dr. Gustav Stolper's letter, and we would be glad to let you see it. Either Mr. Randolph Paul or Mr. Roy Blough is at your disposal.

Best regards.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Mr. Walter Lippmann,
1525 35th Street, N.W.,
Washington, D.C.

Copies to: Mr. Randolph Paul
Mr. Roy Blough

File in MC

By Messenger Sturgis 10:45

291

Sent by messenger

11:30 A.M.

3/22/42

Copy to Paul & Blough 3/20.

NEW YORK
Herald Tribune 292

1525 35th Street, N. W.
Washington, D. C.
March 19, 1942

Dear Henry:

I wonder if any one in the Treasury has made an analysis of the letter by Dr. Gustav Stolper which appeared in last Sunday's New York Times? If so, I should like very much, if possible, to see it before I attempt to write anything about the tax program.

Kind regards.

Yours,

Walter Lippmann

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

For Your Information

March 20, 1942

To Ferdinand Kuhn, Jr.

From Joseph Melia

EDITORIAL COMMENT ON TAXES:
ECHOES FROM THE GRASS ROOTS

Although there is dwindling editorial discussion of the new tax program as a whole, the past week has produced a steady growth and intensification of the demand for a general sales tax. Metropolitan newspapers are pushing with increasing vigor their demand that Congress enact such a tax; the smaller newspapers have now taken up the cry, and are repeating the demand in all sections of the country, even in those States which already have a sales tax on the statute books. Opposition to a sales tax is insignificant and almost unheard in the general editorial clamor.

The National Association of Manufacturers has been successful in winning the endorsement of many small-town newspapers. Those which comment on the N.A.M. proposals accept them at their face value; there has been no editorial endorsement of Representative Jere Cooper's charge that the N.A.M. program was merely an attempt to shift the burden from the shoulders of the big corporations.

Increasingly evident in the demands for a sales tax is the tacit appeal for a lowering of the individual income taxes

suggested in the Treasury's program. The small-town newspapers place more emphasis than their metropolitan counterparts upon the burdens already borne by middle-income taxpayers and upon the "dangerous" new burdens which the Treasury would seek to impose.

Applauding the N.A.M. for presenting "the most sensible as well as the most practicable tax program yet to turn up in Washington," the Sioux City, Iowa, Journal, for example, states: "Members of Congress have heard from the country, which daily is becoming more articulate on the tax question, and they do not subscribe to Mr. Morgenthau's theory at all. They are thinking more and more of some kind of sales tax, and now that the manufacturers have presented an intelligible plan for a combination of a sales levy and 'moderate increases' in income taxes, they may give it careful consideration." The Macon, Georgia, Telegraph finds the proposed income taxes "drastic". It hopefully forecasts as "highly probable" that the "extreme demands of the Treasury may be resisted," while, more aggressively, the Fort Worth Star-Telegram declares: "The Treasury program is an evasion of the major principle that every American must shoulder his just portion of the war program... It ignores the important fact that double income levies...will force liquidation, defaults and loss

of investments. In business which does not share in the proceeds of armament spending, increased bankruptcy will spread unemployment among the workers of certain concerns closed down...Why do not Congress and the Administration invoke that principle which has been applied in Britain? There every income earner pays something in direct taxes and also pays heavy sales levies." This newspaper goes on to say that "there is at least the taint of suspicion that the Administration may be catering to votes in fastening the main burden of taxes upon minorities."

Many other smaller newspapers share the suspicion of the Fort Worth Star-Telegram that the Administration is opposing a sales tax because of "politics."

The Colorado Springs Gazette, for example, states: "Faced with the demand for new and exorbitant taxation, Congressional sentiment runs toward a general sales levy, and the Treasury, seeking desperately to head it off, cries, 'No! No!'...The idea of the Treasury trying to head off Congressional sentiment and dictate tax policy carries connotations unpleasant enough in themselves, but the idea of financing the war without letting the burden touch favored political groups and those directly profiting from the war effort is a bit too arrogant..." Similarly, the

Chattanooga News claims that the Administration's opposition to a sales tax is "demagogic." This newspaper refers to the Secretary's statement that sales tax advocates are seeking to take a little of the load off themselves as "a play for votes and the applause of the masses." A sales tax, it argues, "would distribute the burden among all classes, those of high and low incomes paying in proportion and the income tax taking care of the surplus remaining to the higher incomes. It would be a measure for the benefit of the masses and holds the secret of saving this nation from complete financial collapse."

These comments reflect the opinion of smaller newspapers in all sections of the country. Calling for a sales tax, the Watertown, New York, Times and the Worcester, Massachusetts, Gazette demand that "Washington forget politics," while the Miami Herald says "the Treasury and the Administration should quit sidestepping," and the St. Paul Pioneer Press calls Secretary Morgenthau's reasons for refusing to advocate a sales tax "an admission that the 'soak the rich' school of politics is a form of fooling the people."

The Treasury's case, in other words, is getting no appreciable editorial support. The few publications which staunchly

support the principle of ability-to-pay are voices crying in the wilderness. All signs show that it is high time for labor and other friends of the Administration to make their support vocal and effective.

For Your Information.

March 20. 1942

To Archibald MacLeish

From Alan Barth

EDITORIAL OPINION
ON THE WAR:
BLOOD TRANSFUSION

Elation

The headlines all but sang the news about MacArthur. And in the same breath they jubilantly proclaimed that soon the United Nations would take the offensive against Japan.

The morning newspapers of March 18 had a naval victory to rejoice over, as well as the tale of MacArthur's safe arrival in Australia. And American troops - an A.E.F. with a huge convoy of materiel - had reached an Australian port just ahead of him.

It was too much good news at once; the type fonts were inadequate to the occasion. Reporters on the scene were unabashedly exultant. They chronicled what might have been an American invasion or conquest of Australia. Their stories brashly told of the taking over of Australian plants by Americans, of the introduction of American efficiency. The deep spell of depression which had been cast upon the press by the news of the battle of Java was completely swept aside.

Through all of the editorial comment about General MacArthur, there ran a current of ebullient faith in him, both as a military genius and as a symbol of victory. "MacArthur is a promise," said The Christian Science Monitor. "The short-range promise is for a successful defense of the United Nations' last stronghold in the South Pacific... The long-range promise in this American-Australian combination is almost as encouraging... the promise of bringing the whole English-speaking community into understandings and relations which will be the best guarantee of peace."

But the editorials were a good deal more guarded than the news pages when it came to forecasting an offensive. "Let us not expect too much of MacArthur - especially not all at once," The Birmingham Age-Herald warned. "Let us remember," urged The Richmond Times-Dispatch, "that he cannot perform miracles, and that the Japanese hold all the advantages today."

Hanson Baldwin, The New York Times' military expert, pointed out: "The problems and responsibilities of MacArthur of Australia will be of far greater magnitude than the problems and responsibilities of MacArthur of the Philippines... His greatest role in the Philippines was only in part that of generalship, more that of leadership... In Australia leadership and personality will play their ever-important role. But in Australia there is no fixed scheme of defense."

As the first elation wore away, the bulk of the press took cognizance of the difficulties which lie ahead and endeavored to caution the public against excessive hopes for the immediate future. But they may not easily be able to erase the impression created by their headlines that the tide has turned. They have built General MacArthur a pedestal on which he may find it difficult to keep his balance.

In a fairly extensive survey of the press, not a single adverse comment has been found concerning the General's transfer from the Philippines. The New York Daily News Syndicate, which had used MacArthur's continued presence on Bataan as a fulcrum for its efforts to undermine confidence in President Roosevelt, was conspicuously handsome in its appreciation: "President Roosevelt did it. The entire credit goes to the President, and there can be no room for anything but the highest, most unstinted praise. All America - we are sure - has only heartfelt acclaim for the President's action, and we would like to add our voice in extending congratulations."

The Chicago Tribune managed, however, to inject a sour note into its applause: "One great advantage which may be expected to flow from the transfer of Gen. MacArthur is the liquidation of Churchill as the principal strategist, at least in the Pacific theater." And, as a closing gibe: "The Bataan defenders may fight the better for knowing that they are no longer forgotten men."

Zeal

The position of MacArthur and the American contingent in Australia has been made a peg on which to hang renewed demands for an all-out production effort at home. A number of newspapers utilize it to cloak an otherwise undisguised attack on organized labor and the New Deal.

But beyond this narrow aspect of the demand for increased production, there seems to be a real and growing sense of urgency which clamors for a leveling of all obstructions. All segments of the press showed keen indignation over the charges made by Robert R. Guthrie in conjunction with his resignation from the War Production Board and insisted upon thorough investigation and correction. A St. Louis Post-Dispatch editorial gave expression to what appears to be a general desire for still more vigorous leadership in domestic affairs: "The people in general have shown themselves only too willing to fight, to give, to sacrifice, to do everything possible to make this country victorious. But the people cannot settle the problem of cleaning out the WPB, building a fire under the brass hats and forcing the operation of machines 168 hours a week. That is a job for the Government, in particular a job for the man who is at once President of the United States and Commander-in-Chief. Mr. Roosevelt can smash the bottlenecks, tell labor and industry what is expected of them... The cry is for: Action! And to hell with costs and consequences!"

Along with the renascent hope stimulated by the good news from the Pacific, there seems to have developed a sudden intensification of ardor, a sense that concentration of energy today can have great potentialities for tomorrow.

MEMORANDUM FOR THE SECRETARY.

March 20, 1942.

Mail Report

During this past week the mail followed much the same pattern as that of the previous week, with tax letters far in the lead. Perhaps the latter did not represent quite such an outburst of protest. There were more general suggestions, and even a few friendly comments. Out of several hundred letters, 135 contained suggestions for new taxes, or for methods of collecting the present ones. Still leading in suggestions for new are: dogs and pets, radios, higher postage rates, club dues, and above all, "Tax the Unions". The latter include letters from Union members protesting the salary of their leaders and telling of the conditions that should be remedied.

Letters in favor of the withholding tax are 7 as against 3 opposed.

There continue to be a few protests of taxation on municipal and other tax-exempt bonds, and a small campaign on the part of telephone employees, protesting taxes on pensions and trust arrangements for employees.

Letters in favor of the sales tax slightly exceed those against it, in a ratio of 33 to 28.

Out of 30 anonymous letters, 18 were abusive and 12 general.

General subjects still in the public mind include economy, control of labor, and others covered in recent reports.

The mail continues very heavy, but not quite as much so as it was last week.

General Comments on Taxation

Frank H. Lovingston, Mound, Minn. Why can't we pay our income tax in 12 installments? These 12 installments should be from Jan. 31 to Dec. 31 of each tax year. Thus people would rush their income tax returns. I could have made mine Jan. 31, 1942, instead I filed it a week ago and made my 1/4 payment. Twelve installments would be much easier. The rate of tax is not more important than the method of payment. * * *

Joseph L. Kochka, Washington, D. C. (Copy of letter addressed to the Collector of Internal Revenue, Baltimore, Md.) Last August I purchased Treasury Tax Notes from Riggs National Bank, $25 in my name and $25 in my wife's name, leaving an order that these purchases be made monthly. At the time, I did not know just how much tax I would have to have nor how much she would pay. It now seems that her tax is going to be greater than mine, and the bank tells me that the surplus notes in my name cannot be used in paying her tax. If this is true, it defeats the purpose we had in mind, and creates what I believe is an unnecessary difficulty. We have sufficient notes saved to pay our total taxes, and I am asking that arrangements be made by your office permitting the surplus notes in my name to be used in paying her tax. We want to pay it immediately and not defer its payment. * * * You have gone to a good deal of trouble to help people save these taxes. Why not make it just as easy in a case like mine? It should not be difficult for you to do this.

Edward Kronvall, President, Springfield Safe Deposit and Trust Company, Springfield, Mass. During the past year I have received several letters from your office asking that we give our assistance in the sale of Defense Bonds and Tax Anticipation Notes. This we have done to the best of our ability. Up to the close of business last night we had sold to 3,383 customers Defense Bonds to the aggregate amount of $2,271,625, but had only been able to sell to 87 customers the tax form of bond to an aggregate amount of $51,825, of which amount this bank had taken $20,000, and $7,500 was for my personal account. * * * I have discovered one of the

reasons that have prevented a greater sale of the tax notes. One of our depositors, after having waited in line for over an hour, was informed that the notes could not be taken at the local office, but would have to be sent to Boston. In my own case, when I appeared at the office in January, only two other taxpayers being present, I was told by the deputy in charge that he could not take the $7,500 tax notes as part payment of my tax, which I paid in full. * * * Upon referring the matter to the Chief, Mr. Lucy, who seems to know his way around, the deputy was informed that I was perfectly right, that the notes should be taken. Then, after I had to show him how to find out the interest due on the notes, he refused to give me a receipt. He again referred to Mr. Lucy who informed him that I was entitled to one. * * * I went away with the feeling that that was the last tax paper I would buy if that was to be the attitude, but kept it to myself more or less until I found that several other people had had similar experiences. * * * Another criticism locally is that the hundreds of people who go to pay their taxes in cash are directed, after waiting in line for long periods of time, to go and purchase Money Orders as the local office cannot take the cash. * * * We hope you will accept this letter in the spirit in which it is written, as we wish to be of the greatest assistance in the sale of any of this government paper at this time.

C. F. I'Anson, Salem, Ill. Attached hereto is a suggested graduated depletion schedule of allowances on oil wells. From my experience in the oil industry, I have found the operating or lifting costs on a lease vary extensively, depending on the owner's attitude or ability. From a tax standpoint, these costs should be more or less standardized, which I propose to accomplish by making a composite allowance to cover operating costs and depletion. (Plan follows.) * * * A solution to the controversy on depletion must be found, and I firmly believe that the attached allowances embody the most equitable principles even though the actual percentage figures may need correction. Should you have any questions calling for my going into further detail, I will be glad to do so.

John W. Green, President, Wauneta Falls Bank, Wauneta, Nebraska. I thought perhaps you might be interested in what is going on in a little town of about 760 people in a part of Nebraska called by most Easterners, the desert. The preparation of income tax returns has been a considerable chore for all small town bankers. There is no certified public accountant nearer than 85 miles. The people are very reluctant to go to revenue men they do not know, so the burden falls on the country bankers. We have made out 125 tax returns that paid a total of $21,363.29 tax, with 90% of it remitted when the return was payable. In addition to this, we have sold about $60,000 in Defense Bonds, and have only used our regular force. We have had to grievously strain the 40 hour week law. Everyone in this country wishes they would lose that law for the duration. In making these returns and drawing the checks for the tax, we have no complaint from our people. Their response in every way has been wonderful. I thought that as busy as you are, you might like a breath from the country.

A. H. Galliger, Hot Springs, Ark. * * *Permit me to say that my observation causes me to believe that the people are very grateful to you for your courageous fight thus far, to force those who are making money out of the tears and blood of this struggle, to also in a large measure pay for it. Those who fully understand that this program will, in addition, act as an effective brake upon inflation are doubly grateful! In the opinion of many, all things that the Administration has done has not been the best that could have been done, but certainly the efforts being put forth to prevent inflation and shield the humble worker, or workman forced out of employment by curtailment of industry - and there are millions of those - deserves the support of every American citizen! * * * For the wise guidance you have given, and are giving, your Department, I as one of America's millions, deeply thank you.

Henry J. Gesen, Realtor, Pontiac, Mich. After four hectic weeks a great calm has settled upon my office, for during that time I made out over 600 income tax reports, and assisted in the making of 300 others. My clients are all

wage earning people; I carry on a strictly neighborhood business. My purpose in writing you concerns the reaction, my own as well as that of the public, as I know it, to form 1040-A. Too many backed away from the use of it as something to be avoided. Often I would run down the figures on form 1040 before being permitted to use the optional form. Had the allowances for deductions been just a little more liberal, I am of the opinion many more would have been used - the idea in itself is good. Meeting so many it may interest you to know that a good percentage of these people are already of the opinion income tax will be taken directly out of their pay check, hereafter. We have found that to be the easy way where homes are bought on Land Contract, pro rate the tax and insurance and add the same to the monthly payment. People understand that. * * *

Walter W. Woodbury, Long Beach, Calif. You had better start that tax or hold out on wages pretty soon. My wife was at a party the other evening and one of the ladies told her that she, her husband and two nieces, all making good money, were not buying anything, Defense Bonds or otherwise spending their money, except on their back. Neither were they using the banks, but were carrying the cash with them in a money belt. Some of the same party spoke of the big wages they were getting. No one seemed to be buying Defense Bonds. Some of the men out where I work seem to think (what they think with, I don't know) that after this mess is over, United States Defense Bonds might not be any good, but United States money will be. Others, including myself, won't go all out on the payroll deduction for Bonds because they think the Company is making a little interest on their money; and this is the really big important reason - we have been trying for some time to get a raise in wages to compensate somewhat for the increased cost in living - so if we buy one or two Bonds a month, the Company will say that anyone who can do that don't need a raise. * * * As a working man, and having gone through the last war, I am very much in favor of the withholding tax on wages, something of a compulsory insurance and savings plan.

Favorable Comments on Taxation

Jacob M. Berkowitz, Philadelphia, Penna. I wish to commend you on the stand you are taking against the sales tax in Congress, as well as taxing low income groups. I'm with you in your fight.

John Fenney, Norwalk, Conn. * * * My income tax for the past year is a flat one hundred dollars, but if a 10% tax, or even more, were deducted from my pay, I would still think we are most fortunate to be living in the United States of America. Come now, have everybody do their share, then the goal will be attained. * * *

Joseph Clark, N.Y.C. I am writing to inform you that my wife and I have filled out the short, simplified form in payment of our income tax. Truth is we saw the Donald Duck film on the subject, and even though we would have justifiably saved five or six dollars if we filled out the long form, we were truly impressed by the above-mentioned film. I also want to take this opportunity to protest against those Congressmen, and it seems they are the majority who voted against this marvelous educational film. Those members of Congress who attacked Donald Duck and turned stronger fire against Disney than against the Axis are doing the Axis a great service. We need education. We need what reactionary, poll tax Congressmen call "boondoggling". Yes, we even need Donald Duck if it helps the Government get a few million additional dollars from the citizens for bombers. We don't need poll tax Congressmen; we don't need Congressmen who hate the social, economic welfare of the American people almost as much as they love Hitler.

Miss Ruth Greenwald, N.Y.C. While I think your proposed new income taxes are very stringent, I congratulate you upon your fairness. There are few people in this world who appreciate the situation of the people in the low income brackets. It is quite obvious that an income tax is the only equitable method of taxing people -- according to a person's income - and not a National Sales Tax, the burden of which would of course fall upon the poor man's pocketbook. * * *

Dr. L. A. Eldridge, Jr., Great Neck, N.Y. I have been pleased to see your strong statement of tax principles made recently. I heartily approve of taxation according to ability to pay. Certainly this is a democratic principle. I am glad you are opposed to a sales tax and are in favor of stiffer corporation taxes. I hope you will continue to support these principles as strongly as you have stated them.

K. G. Fulton, Kansas City, Mo. Last week this writer paid income tax for the first time in his 45 years of living in the greatest country on earth. And frankly, I loved it, "Believe it or Not". My wife and I were talking this matter of taxes and inflation, and the cost to us as individuals, and my wife made what I believe to be the wisest statement concerning the paying and sacrifices that America must make, and to do it now, not to-morrow and the next day, but now. (Withholding wages and giving Bonds after the war is over.) * * * Maybe I'm prejudiced, but I think the wife is smart and hit the nail on the head.

R. L. Tollett, President, Gosden Petroleum Corporation, Big Spring, Texas. * * * Both you and Mr. Paul were courageous enough to recommend the elimination of the percentage depletion provisions of the Federal Income Tax Law. Believing myself well qualified to do so, I congratulate both you and Mr. Paul for making this recommendation. I am President and General Manager of an independent company engaged in producing, refining and marketing crude oil and its products. Our total assets amounted to over six and a half million dollars. (Also lawyer, C.P.A., and director of Petroleum Associations, etc.) * * * Regardless of the arguments presented and the pressure exerted to influence members of Congress from oil producing states, I am sincerely of the opinion that percentage depletion as now provided for is a subsidy to the producing division of the oil industry. * * * It is not my desire to participate in any argument with the well-organized associations of oil producers, but I do think that your recommendations are reasonable and should be followed by Congress in enacting the next Revenue Act. A great responsibility is yours in these critical times. You are to be congratulated for your courageous efforts in this instance.

Unfavorable Comments on Taxation

S. Ainsworth Hird, President, Samuel Hird & Sons, (Worsted Manufacturers), Garfield, N.Y. After careful reading of the changes that you propose should be made in levying the new corporation income and corporation taxes, I feel that as an employer I am qualified to suggest that the method of collecting the tax that requires the employer to deduct the tax from the payroll, would in a large part serve to defeat the purpose of the Administration, in that it would create inflation, because whenever sums such as proposed are deducted from payrolls, there is always an automatic demand for an increase of this amount in the pay. * * *

E. A. Miller, Harrisburg, Penna. I am this day forwarding to the Collector of Internal Revenue at Philadelphia my first installment on 1941 income tax. I am as ready and willing as the next person to bear my share of the war burden, provided the money is judiciously expended and not foolishly, as indicated in the enclosed newspaper clippings. After making due allowance for the bias of the Washington Post, they still have a helluva lot on the ball, and in my judgment, it is high time that somebody at Washington starts wielding the pruning knife.

F. M. Lindsay, General Manager, Decatur Newspapers, Inc., Decatur, Ill. * * * The finest contributions in this community to welfare agencies are made by men and women who have independent incomes of their own. Not more than a week ago I heard the finest contributor to the Community Chest say that the forced consolidation of husband and wife was going to decrease tremendously charitable and educational gifts by these people. Personally, I think that the joint return is unfair and many of our most decent citizens are going to feel they are being unfairly taxed. It seems to me that when heavy taxes are laid that no group of honest taxpayers should feel that they are goats.

V. S. Whitinger, President, The Peoples Bank and Trust Company, Tupelo, Miss. * * * We have sales tax in Mississippi and have had for a number of years and consider it the most equitable form of taxation, and have never considered that such a tax was inflationary. We feel sure, if it is a fact that the Treasury Department holds that such a tax is inflationary, that you have good reasons for such position. However, we cannot understand it, and would appreciate advice from you as to the reason you think it is. * * *

Brandon Barringer, Vice President, The Pennsylvania Co., Philadelphia. I was much interested in seeing your statement that we should not at this time increase the tax burden of the lowest group of income recipients which will, I think, meet with general acceptance. I wonder, however, whether it has occurred to you that the proposed increase of the Federal normal income tax and surtax on corporations from 31% to 55% will have exactly this effect in hundreds of thousands of individual cases, as it will reduce the dividends received on stocks by people with very small income by an average of 1/2. * * * I have just had a meeting with the president of a charitable foundation, all of whose income is devoted to paying tiny annuities to retired music teachers. * * * The foundation adopted the policy of buying what they considered the best common stock to maintain annuities. If your proposed tax bill goes through, every one of these annuities will have to be drastically decreased. * * * I would much prefer to see the corporations allowed to pay out dividends and an increase in the scale in the individual income taxes so that the money could be collected in accordance with the ability to pay.

Henry T. Pratt, Minneapolis, Minn. * * * Many of us bought auto use tax stamps in January at $2.09, and I understand we buy another in June. We used tires, we stood in line, the Government (we) paid for printing the stamps, and cards, thereby using valuable paper, and you have a record of every car - for what purpose? All that information is available in the state records. Yet an organization and files or storage must be arranged for them. * * * If some clerk in your office is going to write a form letter, "Your valued suggestion has been referred, etc., etc.," don't bother about it -- get on with the war.

G. W. Henshaw, Grand Rapids, Mich. Since the Collector of Internal Revenue at Detroit stated through the Press that Vehicle Tax Stamps did NOT have to be displayed on the automobiles, but could be carried in billfolds, hundreds of people have not bought the stamps. Many have actually been heard to brag about not buying the stamps. This is extremely unfair to those of us who willingly pay our various taxes, and it is a rotten situation generally when we consider the thousands in Michigan who are American on the surface only. * * *

Mary O. MacCafferty, N.Y.C. I wish to inform you that with my income tax return I sent the following letter: "I hereby protest against the payment of the enclosed income tax and state that I have only paid it under the threat of a jail sentence. This tax has been forced upon me and upon several million other Americans against our will to pay for a war to which we were bitterly opposed, and which, if the present Administration is not expelled from Washington, may only end with the downfall of the American Republic. It is taxation without representation. I defy the political party in Washington, which came into power through the abuse of public confidence and maintains that power through sheer chicanery, to prove that it represents the will of the American people."

Norvin H. Rieser, N.Y.C. * * * The tax situation is so complicated, and the work and cost of filing same is so expensive, that in many cases the cost of the work far exceeds the actual tax paid. If some drastic action is not taken by the United States Government, this situation will become worse instead of better. * * * As an example of what a manufacturer is up against - our executive offices are in New York City, we operate a plant in Pennsylvania, and we pay a Pennsylvania Franchise Tax, a Pennsylvania Income Tax, a Pennsylvania Corporation Loan Tax, a Pennsylvania Bonus Tax. In New York City we pay Sales Tax, Gross Sales Tax, an Occupancy Tax, and a New York State Franchise Tax; California Income Tax, Los Angeles County Personal Property Tax (which is outrageous), and equally so, the Washington, D. C. Income Tax, and the Washington, D. C. Business Tax. * * * The Washington Tax must have cost us $200 in labor, and we paid them $31.61. You are asking the country to streamline business in order to produce efficiently, and it is high time that streamlining was started by the Government to eliminate the hardships which are increasing instead of diminishing. * * *

Leslie Williams, Palm Springs, Calif. For several months we have read in the daily press of your suggestions or proposals to limit corporation profits to a fixed percentage of the invested capital. Some of us were enthusiastic over your apparent foresight and tendency toward straight thinking on this basically important subject. But now we learn that you seem to have dropped the subject entirely, advocating instead a mere change in tax rates without changing in principle any of the major features of the present tax law. * * * As the matter now stands, your proposal would treat the Coca Cola Company exactly as it would the Consolidated Edison Company of N.Y., to pick at random two well known corporations. Coca Cola, with stock selling at about $60 per share (it has been as high as $90 recently) has invested capital of $5.15 per share. It pays $5.00 dividend per share, or about 97.8% on the invested capital. Consolidated Edison, on the other hand, sells to-day for about $11.50 per share, with invested capital of about $44 per share. It earns about 4.8% on the invested capital. Yet you propose to tax both companies on substantially the same basis, indicating that you feel that the present scheme should be perpetuated. Certainly nothing in our economic life compares with our tax laws as representing a hodge-podge of expediencies, with practically no consideration for sound, basic principles. * * *

General Comments on Present Emergency

Nathan Schachter, Chicago, Ill. In my position as Owner and Operator of furnished apartment buildings, consisting of over eighty American families of various origins, I have found many of them to be defense workers in Chicago and vicinity. I am informed that all piece workers that have earned $10 to $18 per day, for some unexplained reason must now and in the future cut the piece work not to exceed more than $10 per day. In my estimation, it means that production will automatically be cut down, contrary to our urgent war needs. I am therefore kindly asking you to give this information to the proper authorities to stop this dangerous step.

Chauncey F. Cleveland Bishop, National Bank Building, Honolulu, sends Western Union Money Order for $100, with the following message: Congratulations on the sale of Defense Bonds. Respectfully suggest that millions of citizens are now anxious to buy offense bond issues.

Anonymous - N.Y.C. Labor leaders of all branches have harassed our American capitalistic system to such an extent that many Americans believe that the labor class in this country of ours is equivalent to the peasant class in other countries. * * * First, allow me to take as an example a union to which I belong. Being a musician, I belong to four different local unions - Kansas City, Chicago, St. Louis, and New York. If I happen to receive my initiation in the Musicians Union in New York, I pay the New York Local an initiation fee of $50. plus $4 quarterly for the duration of my membership in that local. Should I desire to travel to Miami and work in the jurisdiction of the Miami Musicians local, I must transfer and pay that local a fee of $5 quarterly for the duration of my stay, unless I stay over a period of six months. Should I decide to stay over six months, I have to become a full-member by paying the initiation fee of the Miami Local, which might amount to another $50. * * * The President of the American Federation of Musicians receives almost as much as the President of the United States, as far as salary is concerned, and his expenses are all extra! * * * I believe the time is appropriate to set Labor in its place - limit these expensive labor leaders to a maximum of $200 per week - reduce the dues to a minimum that will pay the office help - demand that the excess be turned over toward the vast problem of winning this war. * * *

George M. Clark, President, Clark & Gibby, Inc., N.Y.C. Last August, September and October, we delivered office furniture in accordance with the amounts listed on the enclosed statements. We have received no remittances to cover these amounts, and had to borrow money at 6% from our bank in order to carry on. This is all wrong and we appeal to you for immediate help. Please telegraph us collect if there is any more we can do from this end.

A. N. Spanel, International Latex Corp., Dover, Delaware. (Telegram) Your courageous fight to repeal parasitic silver legislation, in face of silver bloc's strangle hold on our Treasury, will be applauded and long remembered by the American people. No one underestimates the political and material power of your adversaries, but they cannot win if you stage your battle before the people, openly and with no holds barred. In the public mind, the discredited silver bloc represents the combination of a few against the whole people, and the entire economy of this country. Your victory will be a victory for every man, woman and child in America. More power to you.

J. C. O'Dill, Myrtle Beach, S.C. My income is such that it is below the $740 point, and I am now in my 85th year of age, and a retired Methodist Minister, after 63 years of service in that capacity. I am too old, blind and feeble to offer my services to the Army, but I have always believed in the principals of Government by, for and of the people and beg to hand you herewith my check for $5, with the prayer for the speedy success of our armed forces over our heathen and barbarous enemies.

Thomas M. Galey, Owensboro, Ky. * * * The House has passed the $771,555,137, Farm Bill. Here in Owensboro lives rich Jim Ellis. Thirty-eight hundred acres of fine land came up for forced sale. Jim bought it for $27,000 cash. WITHIN THREE YEARS THE GOVERNMENT PAID JIM $41,000 BECAUSE HE WAS A GOOD BOY IN THAT HE COMPLIED WITH INSTRUCTIONS TO RAISE NO CROPS THEREON. Now, that's the kind of "loopholes" you ought to cork up: ain't I right?

Charles Lappen, Chicago, Ill. One of our business associates, Mr. Henry C. Bobbe, passed away several days ago. He served with the U. S. Naval Forces during the last war, and up to the time of his death was planning how he could serve again. Instead of sending flowers, I am sending a check for $10, as a contribution in memory of Henry C. Bobbe, this money to be used by the Government in any way it sees fit, in the broad program to win the war.

B. V. Sturdivant, Theatre Defense Bureau, Los Angeles, Calif. After observing very closely theatre audience reaction to the Walt Disney subject, "The New Spirit", may I take this means of advising that it undoubtedly is the most successful subject of its kind that has ever been exhibited. As a matter of fact, it is unfair to classify it with any other release since it is a pioneer in its own right. The demonstration of patriotic fervour which invariably followed these showings left no doubt in my opinion but that a great service was done in bringing about even greater unity among the American people in our all-out effort, in addition to a closer and more friendly relationship with the Treasury Department. * * * There is no doubt whatever but that it encouraged the payment of income taxes.

Mrs. A. Weingarten, Cleveland, Ohio. * * * Just why is it, Mr. Morgenthau, that our delegated and elected authorities are doing nothing about Father Coughlin's weekly paper, "Social Justice"? Its circulation is growing, and its reading matter is more menacing week by week. If people who think they are not interested would take the trouble to read one or two copies of this mouth-piece of hate, perhaps some action would be taken. I have written to the F.B.I., and can't understand why that branch of our Government doesn't take this matter in hand. * * * This particular periodical is ONE OF THE BEST FRIENDS HITLER HAS IN OUR COUNTRY.

Albert A. Rosenthal, a Traveling Representative, protests the red tape and "harping on technical terms" of the Internal Revenue officials who have passed upon his case. He is an American representative of an English firm offering wines

grown in Portugal, and selected because they resemble certain wines grown in Germany and France. His labels describe the characteristics of the individual wines, indicating which German or French wine each one resembles. The Internal Revenue insists that one of the following adjectives -- "nutty", "dry", "tangy", "sweet" -- be used instead of the description he gives. Mr. Rosenthal says the terms are vague and meaningless, and therefore actually misrepresent the product. He is 77 years old, and says he refuses at this age to misrepresent, even when ordered to do so by Government officials who do not understand conditions either of his business or of international relations. He believes it actually an aid to Hitler because German wines are "protected" by our Internal Revenue decision. He appeals to the Secretary as the last step before winding up his business.

Mrs. G. A. Russell, Arlington, Vt. We are totally at a loss to see on what grounds you base the very kind words to "labor" in your speech at Detroit, January 25th. According to report of said speech in the New York Herald Tribune, labor received from you this choice piece of "taffy": -- labor, which he said "has been ahead of us all in its willingness to produce armament" -- etc. A frightful waste of sugar, Mr. Morgenthau -- what would Mr. Henderson not say to you! * * *

"John Doe", Greenwich, N.Y. I am a boy 14 years old, and I live in a small town in upper New York State. When war broke out I certainly wanted to help all I could. I thought of a plan which would raise a small amount of money which can, I hope, be a help. I drew several pictures of a "V" for Victory, one of which I enclose, and went from door to door selling them. The people gave whatever they thought fit. I found that the contributions were very generous. I have, due to lack of time and other activities, delayed some time in sending you the money I collected. I am going to keep on making them, but I now am enclosing a Money Order for what has been collected, which amounts to $2. I do not believe in anonymous letters, but as contributions are from many, and I wish no personal credit, I omit my signature.

Favorable Comments on Bonds

Guy H. Walden, Assistant Cashier, The First National Bank, Amarillo, Texas. * * * I have served two years with the Treasury Dept. as an Assistant National Bank Examiner, of which I am grateful to you for having the opportunity. Because of this experience, I know that there are several million, maybe billions of dollars in dormant accounts in the banks in the United States. For various reasons 95% of these accounts will never be claimed. For this reason I have thought there might be a bill passed in Congress authorizing the Treasury Dept. to issue Savings Bonds and Stamps in the names of the persons having these accounts. Then if at any time these accounts are claimed, the banks could give the persons their Stamps or Bonds. This would help greatly toward financing the war program.

Samuel Mayer Feiner, San Francisco, Calif. I was very glad to hear over the radio that you have suggested that the workers should get paid for overtime work with National Defense Bonds. I believe that it is a marvelous idea. It might interest you, Mr. Secretary, to know what other workers think of your suggestion. I have asked a group of workers at the Bethlehem Ship Yard in San Francisco with whom I work, what they think of your suggestion. To my amazement, all of them liked the idea very much. Some of them have remarked that it would be the only way for them that they could save some money for the future. I hope that your suggestion will be successfully carried out soon.

James A. McCall, General Freight Agent, National Carloading Corporation, Kansas City, Mo. The attached file is self-explanatory, and is for your information. (Requested doubled payroll deduction hereafter.) I am a 33 year old young man with a wife and baby (four years old) and another one is expected in June, and I fully realize we are going to have to give up a lot of things to pay for this war. We are also going to have to fight like the very dickens to win it, but we'll win, and I, one of those little fellows, do hope you all can work out something that will not take everything we have now, and what we must have to live in the future. * * *

Unfavorable Comments on Bonds

Sophia Breyerson, Bronx, N.Y. About three months ago I returned $6,000 worth of Series E. Bonds because of over-subscription. I ordered them converted to Series F. Six weeks later I was notified by your Department that I will be allowed to keep a $1,000 Bond, Series E, and the rest will be attended to as requested by me. I did not think that such a simple transaction would take close to three months to be effective. I am sorry to register a complaint, but I sincerely feel better efficiency and expediency should be applicable to all transactions.

Mrs. Marianne Langdon, Coldwater, Mich. In response to circulars received concerning a Defense Bond campaign, which now is in progress, I decided upon a systematic plan of purchasing a Defense Bond each month. Being quite enthusiastic about the plan, and as a starter, I mailed to you on February 2 a Federal Reserve Draft for (18.75) eighteen dollars and seventy-five cents for the purchase of my first bond. I fully expected to receive the bond within a few days; however, you can imagine my disappointment after waiting and waiting. I finally received the Bond from the Federal Reserve Bank of Chicago on March 7th, and dated March 2nd, instead of February. This was more than a month after I mailed out my draft in payment of same; also I have lost one month in the dating of the Bond through no fault of my own. * * * Possibly you can explain this delay; however, it seems to me that we will never be able to win a war and put over a Defense Bond program with such unreasonable delays. (Letter addressed to the Treasurer of the United States.)

G. H. Mason, Columbus, Ohio. I have $3,000 in a Savings Bank, itching to buy Defense Bonds, but I am holding off, undecided as to whether these Bonds are primarily or secondarily for defense. Right now, these Defense Bonds smell too much like "Bargaining Agent", "Check Off", "Time and A Half for Overtime", "Double Time for Sundays", "40 Hours a Week", "$25 to $200 Initiation Fee" -- Strikes and more strikes -- dues and more dues. The Administration, of which you are a part, through its crazy labor laws, has deliberately fostered this rotten labor mess, and until it is cleared up, no more of my savings will go into the pockets of any of the quarter million of racketeers living on labor. * * * My $3,000, Mr. Secretary, is ready to-morrow to buy food for the soldiers and sailors, but none of it for check-offs to these crooked unions. The first report that reaches me that these unions are curbed, and are willing to heed the President's plea for no stoppage in production, then I will hustle down and buy $3,000 more of Defense Bonds, check-off or no check-off.

Julius A. Reif, Vice President, The Provident Savings Bank and Trust Company, Cincinnati, Ohio. We desire to pass on to you our experience in connection with the cashing of coupons from Government Bonds whereby the owner is required to put them in separate envelopes and apply his name on the back of each envelope, besides which he is required to make out a declaration certificate for taxation. This has proven to be a hardship, especially to old folks who purchased bonds as an investment, believing in them and feeling that all red tape would be eliminated by owning Government Bonds. * * * Quite a few persons declare they will hesitate buying any more Government Bonds.

Wallace Robertson, President, The Beatrice National Bank, Beatrice, Neb. A united and vigorous effort is to be made to increase the sale of Government Bonds in this County. * * * We are confronted repeatedly with such reasons for not subscribing as these: "Why should I deny myself and buy Bonds when the Administration will throw it away on such projects and rackets as the Florida Ship Canal, St. Lawrence Waterway, soft jobs on the Federal payroll for Mrs. Roosevelt's communistic friends, Mellet's Mad House, the Administration's support of the labor racketeers, the CCC and the NYA."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Mr. Thompson

FROM Mr. Head

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of January 1942.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each, for the month of January 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on January 24. Copies were given to Under Secretary Bell and to Mr. Morris. - Mr. Haas, Mr. Murphy, Mr. Foy, Mr. Rosen, Mr. Barnett

   This review contained, in addition to analysis of the current situation, the following special study:

   Yields of British Government securities. - Mr. Matlock

2. A memorandum was prepared, and was transmitted to the Secretary on January 8, containing recommendations with respect to the January refunding. - Mr. Haas, Mr. Lindow, Mr. Sandelin, Mr. Conrad, Mr. Leahey, Mrs. Barnes

3. Two tables were prepared on January 9, showing on the basis of closing quotations on January 8 and 9, respectively, estimated yield bases and probable premiums on possible refunding issues. - Mr. Lindow, Mr. Sandelin, Mr. Conrad

4. A maturity calendar was prepared as of January 1, for each issue of direct and guaranteed bonds and notes of the United States. The calendar was transmitted to the Secretary on January 9. - Miss Lagos

5. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table was prepared summarizing this information. Similar comparative information for earlier periods was prepared in a weekly table. A chart for each issue was kept up to date showing daily price and yield figures together with comparative monthly data since 1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Moody, Miss McCoy, Mr. Kroll

6. At the request of the Secretary, arrangements have been made to secure periodically from the British Empire purchasing missions certain information regarding purchases in the United States by the British Empire. Reports and tables are prepared from this information, and are transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. Mayo

(a) The Division also receives weekly statements from the British Purchasing Commission showing (1) the dollar volume of orders placed by British Empire Governments; and (2) the dollar volume of deliveries on orders placed by the United Kingdom through the various missions. The information in these statements is itemized by contracts and classified by twenty-five commodity groups.

These data are reviewed and edited in the Division, and a bi-weekly report, entitled, "British Empire Commodity Statements", is prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight analytical tables: The first three relate to orders placed during the current period by British Empire Governments; the next three consist of historical summaries of orders placed by the British Empire; the seventh and eighth relate to deliveries on orders placed by the United Kingdom through the British purchasing missions. These statements were prepared, and were transmitted on January 6.

(b) The Division receives each month from the British Purchasing Commission information, on a physical volume basis, relating to the purchases of various other important commodities. These data are edited and consolidated in the Division, and analyses of British Empire orders are prepared for the several commodities, containing the following analytical tables: (1) current status of orders; (2) history of orders; (3) history of deliveries; and (4) scheduled deliveries of unfilled orders.

Statements for the following commodity groups were prepared, and were transmitted as follows:

Airplane propellers, January 6
Small arms, January 6

By direction of the Secretary, notice was sent out on January 24 that preparation of these reports was being discontinued. The work of closing out the assignment is in process.

7. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and by Lindeteves, Inc. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. Mayo

Weekly statements are received, showing the dollar volume of orders placed by the Netherlands Purchasing Commission and by Lindeteves, Inc., and the deliveries made thereon. These statements are itemized by contracts and are classified by the twenty-five commodity groups used for reporting orders placed by the British Empire.

The data are reviewed and edited in the Division, and bi-weekly reports are prepared for each of these agencies summarizing the information classified by commodity groups. The reports consist of three tables each, showing (1) history of orders; (2) history of deliveries; and (3) current delivery status of orders. These reports entitled, "Netherlands Purchasing Commission Commodity Statements" and "Lindeteves, Inc. Commodity Statements" were prepared, and were transmitted on January 6, according to instructions by the Secretary.

By direction of the Secretary, notice was sent out on January 24 that preparation of these reports was being discontinued. The work of closing out the assignment is in process.

8. In further pursuance to the request of the Secretary on July 8, four tables were prepared, and were transmitted to him on January 14, showing deliveries from July through December of airplanes, flying boats, four-engine bombers, and tanks. - Mr. Tickton

9. In further pursuance to the request of the Secretary on October 22, two charts were prepared, and were transmitted to him on January 12 and 23, showing lend-lease orders effected by the Procurement Division from May 1, 1941 to date. - Mr. Tickton

10. In response to a request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements were made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton Mr. D. J. Leahy, Mr. Blitman, Mrs. Barnes, Mr. Robbins, Miss Westerman, Miss Wood

A summary was prepared of the data received as of November 30, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for January.

Special tabulations were prepared, and were transmitted on January 9, to the Federal Reserve Banks of New York and Philadelphia, covering ownership in the respective districts, as of November 30.

A tabulation was prepared, and was transmitted on January 9, to the Board of Governors of the Federal Reserve System showing, by classes of banks and by issues, the amount of Government securities owned on November 30, by the institutions covered in the survey.

The information as of December 31, received from 7,000 banks and insurance companies was coded, tabulated, and analyzed. An analysis was prepared, consisting of 100 tables, showing this information, classified by type of institution, by issue, by geographic area, by call-classes, and by tax-exemption provisions.

New letters were sent out to the banks and insurance companies on January 29, requesting comparable data as of January 31.

A tabulation was prepared, and was transmitted to Dr. Goldenweiser, Board of Governors of the Federal Reserve System, on January 31, which showed as of June 30 and December 31, 1941, the ownership of Government securities, by issues, by classes of banks.

11. At the request of the Secretary, arrangements have been made to prepare current statistical reports on the sales of United States Defense savings bonds, series E, F, and G, and Defense Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during January were transmitted according to instructions by the Secretary - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton, Mr. Kroll, Mr. D. J. Leahy

(a) Daily tables were prepared, showing the dollar volume, on the basis of the issue price, of sales of savings bonds, series E, F, and G, by Post Offices and by banks. The first table, prepared on January 1, presented these data for each business day of December, with totals for the month. The next table, prepared on January 2, showed these data for January 1. Subsequent tables showed the data for the successive business days of January, with cumulative totals. The table prepared on January 31 covered the period from January 1 through 30.

(b) Daily tables were prepared, containing a comparative statement of sales of bonds, series E, F, and G, in the three latest months, by Post Offices and by banks. The dollar volume of sales was shown on the basis of the issue price, together with the absolute and percentage changes in the latest month from the preceding month. The table prepared on January 1 contained these data for the full months of December, November, and October. The first table showing the comparison for January, December, and November, prepared on January 2, showed the data for the first business day of each month. Subsequent tables showed cumulative data for successive business days. The table prepared on January 31 covered the last 23 business days of each month.

(c) A table was prepared on January 1, showing sales of savings bonds, series F, G, and E, by Post Offices and by banks, in dollar volume, in each month from May through December.

(d) A table was prepared on January 5, showing sales of savings bonds, series E, F, and G, in dollar volume, in each month from May through December.

(e) A table was prepared on January 21, showing sales of savings bonds, series E, in dollar volume, in December, by States.

(f) A table was prepared on January 20, showing for savings bonds, series E, the estimated number of units sold, and percent of the dollar volume, by denomination, in each month from May through December.

(g) A report consisting of 177 pages, was completed on January 30, showing sales of savings bonds, series E, for the month of December, in dollar volume, by Federal Reserve districts, by States, by cities, and by counties, classified by sales agents and denominations.

(h) A table was prepared on January 9, showing for savings bonds, series E, the dollar volume of sales in fifty cities, for the period from July through November.

(i) A table was prepared on January 20, showing for savings bonds, series F, the number of units sold, and percent of the dollar volume, by denomination, in each month from May through December.

(j) A table was prepared on January 20, showing for savings bonds, series G, the number of units sold, and percent of the dollar volume, by denomination, in each month from May through December.

(k) Two tables were prepared, on January 5 and 9, showing estimated total value of Defense Postal savings stamps, in each month from May through December.

(l) A table was prepared on January 9, showing total sales in dollar volume of Defense Postal savings stamps, by States, in each month from May through December.

12. At the request of the Secretary on December 26, daily tables were prepared from data wired by the Federal Reserve Banks, showing the supply of savings bonds, series E , on hand, unfilled requests by dates, by denomination, and by Federal Reserve districts; total inventory, production, and sales. The tables prepared in January were transmitted according to instructions by the Secretary. - Mr. Tickton, Mr. Mayo

13. At the request of the Secretary on December 31, weekly memoranda and tables were prepared from data wired by the Federal Reserve Banks, showing the number of agents qualified to issue series E, savings bonds, by type, Federal Reserve district, and by date. The reports were prepared as of January 10, 17, and 24, and were transmitted on January 13, 20, and 27, respectively, according to instructions by the Secretary. - Mr. Tickton, Mr. Mayo

14. At the request of the Secretary, a list was prepared from data received from the Federal Reserve Banks of corporations qualified as of January 10 to issue savings bonds, together with the number of employees and the number of requisitions for bonds since the date of qualification. The list was prepared, and was transmitted to Mr. Morris for the Secretary on January 21. - Mr. Tickton

15. Pursuant to the request of the Secretary on December 15, for information on the progress of the payroll savings plan for defense savings bonds, series E, the following projects were completed. - Mr. Haas, Mr. Tickton

    (a) Weekly tables were prepared, showing the number of firms with payroll savings plans classified by size, type, and State, together with the number of employees participating. Tables were prepared as of January 10, 17, and 24, and were transmitted on January 17, 21-23, and 29-31, according to instructions by the Secretary. - Mr. Tickton, Mr. D. J. Leahy, Mr. Keats

    (b) A list was prepared from data received from the State Administrators of newspapers participating in the payroll savings plan, together with the number of employees as of January 20. The list was transmitted to the Secretary on January 21. - Mr. Tickton, Miss Westerman, Miss Wood

(c) A table was prepared from data received from the State Administrators, showing State and local governments reporting payroll savings plans, the total number of employees, the number of employees covered, and the percent covered as of January 17. The list was prepared, and was transmitted to the Secretary on January 21. - Mr. Tickton, Mr. D.J.Leahy, Mr. Keats

(d) A list was prepared from reports received from the State Administrators, showing participation in the payroll savings plan by industrial plants displaying the Navy "E" flag, as of January 24. The list was transmitted on January 31, according to instructions by the Secretary. - Mr. Tickton, Mr. Keats

(e) A list was prepared from reports direct from 86 large companies participating in the payroll savings plan during December. The list gave the total number of employees, the number participating, and the percent. The tabulation was prepared, and was transmitted to the Secretary on January 21. A copy was given to Mr. Graves. - Mr. Tickton, Mrs. Barnes

(f) A statistical reporting procedure was developed on January 22 and 23, at the Division of Savings Bonds, to facilitate the handling of State Administrators' reports on the progress of the payroll savings plan. - Mr. Tickton, Mr. D. J. Leahy, Mr. Keats

(g) A summary is being prepared of operations of payroll savings plans, by classes of corporations, during December, on the basis of data received from corporations in response to our letter of January 19. - Mr. Tickton, Mrs. Barnes, Miss Westerman

16. At the request of Under Secretary Bell, in connection with a proposed new type of savings bond, conferences were attended on January 9, and a series of sample bonds in check-book form were prepared on January 7. - Mr. Lindow, Mr. Tickton, Mr. Wagner

17. At the request of Mr. Graves on January 3, a schedule was prepared, showing, by income classes, a weekly savings figure which might be used as a "par" for the purchase of savings bonds which would produce approximately $10 billions annually. The schedule was completed, and was transmitted to Mr. Odegard on January 29. - Mr. Reagh, Mr. Kroll

18. A study is being made of the sources of funds for Government borrowing. During January the reports and tables prepared were transmitted in accordance with instructions by the Secretary. - Mr. Haas, Mr. Daggit, Mr. Lindow, Mr. Breithut, Mr. Wagner, Mr. Weintraub, Mr. Mayo, Mr. Colclough, Mr. Saunders

(a) An analysis was made of the gross national product involving the preparation and revision of tables showing the estimated composition and distribution of the gross national product for the fiscal year 1943; for the calendar year 1941, and at the annual rate for September 1941, with respect to two of the revisions. These tables were prepared on January 22, 24, 29, and 30.- Mr. Lindow, Mr.Breithut

(b) Conferences were held from January 26 through 31, in consultation with the Divisions of Monetary Research and Tax Research, and with members of the consultative committee from other agencies. Comments made in these conferences were summarized. - Mr. Lindow, Mr. Breithut

(c) A table was prepared on January 8, showing an analysis of the distribution of national income, with particular reference to taxes required in June 1942 to maintain prices at their October 1941 level. - Mr. Lindow, Mr. Breithut, Mr. Wagner

(d) Dummy tables were prepared, and were revised on January 26 and 30, showing possible methods of financing the budgetary deficit and operations of Federal agencies. - Mr. Lindow, Mr. Breithut

(e) A textual analysis was completed on January 15, of the general problem of curtailment of consumers goods output, with particular reference to its effect on the composition of the gross national product. - Mr. Lindow, Mr. Weintraub

(f) A series of tables were prepared from January 26 through 31, to serve as supporting schedules for the major report covering national income payments, consumers outlay, State and local revenues, maintenance, and depreciation. - Mr. Lindow, Mr. Breithut, Mr. Mayo

(g) An analysis is being made of increases in individual incomes to determine their disposition. - Mr. Daggit, Mr. Colclough, Mr. Weintraub, Mr. Saunders

(h) A compilation is being made of data for measuring monthly changes in consumers' cash surpluses, for use in estimating the "inflationary gap". - Mr. Daggit, Mr. Colclough, Mr. Saunders

19. An analytical review was made of the proposed Department of Labor's survey of family expenditures, with specific reference to the Treasury study of the gross national product. The review was incorporated in a memorandum on January 20, and comments were prepared on a meeting at the Bureau of Labor Statistics on January 26. - Mr. Lindow, Mr. Breithut, Mr. Wagner

20. A table was prepared, summarizing sales from August through December, of Treasury notes, Tax Series A and Tax Series B, in par amounts, by individuals and by corporations. The table was transmitted to the Secretary on January 10, and copies were given to Under Secretary Bell, to Mr. Buffington, and to Mr. Kilby. - Mr. Tickton

21. A table was prepared, showing sales from August through December, of Treasury notes, Tax Series A and Tax Series B, in par amounts, classified by denomination. The table was transmitted to the Secretary on January 10, and copies were given to Under Secretary Bell, to Mr. Buffington, and to Mr. Kilby. - Mr. Tickton

22. At the request of Mr. Broughton on November 12, a review was made of a memorandum suggesting a new type of tax anticipation notes, Series A, to be issued during 1942, and a memorandum was transmitted to Mr. Broughton on January 26. - Mr. Reagh, Mr. Foy, Mr. Brown

23. At the request of Under Secretary Bell, agenda, memoranda, and minutes are prepared in connection with the Treasury-Federal Reserve meetings held for the purpose of discussing financing policy. - Mr. Haas, Mr. Lindow

Notes were prepared of the meeting held on January 1. - Mr. Murphy

24. Three proposals of the RFC that the Secretary request that corporation to purchase stock in three banks were examined. - Mr. Barnett, Mr. Rosen

25. At the request of the Secretary on November 3, monthly charts were prepared, showing certain information on the progress of the programs under Lend-Lease, the Maritime Commission, and the Army Air Corps.

During November and December some preliminary information was transmitted. During January monthly charts were prepared showing appropriations, authorizations, allotments, contracts awarded, and disbursements under the Office of Lend-Lease through December, under the Army Air Corps through November, and under the Maritime Commission through December. These reports were transmitted to the Secretary on January 13, 29, and 30, respectively. - Mr. Haas, Mr. Lindow, Mr. Wagner

26. At the request of the Secretary on December 6, an analysis is being made of the plant facilities for war production.. - Mr. Lindow, Mr. Wagner

(a) The progress of United States Government commitments by type of industry, by Government departments, and by dates will be shown in a monthly chart and table. This report is now in preparation.

(b) Commitments by the United States Government, by private interests, and by the British Empire, by type of industry and contracting authority will be shown in a monthly chart and table. This report is in preparation.

27. In accordance with the request of Under Secretary Bell on December 27, an analysis was completed for Mr. Rouse of the holdings of United States securities to be refunded January 15, 1942. The figures were telephoned to Mr. Rouse on January 5. - Mr. Lindow, Mr. Tickton, Mr. D. J. Leahy, Mrs. Barnes

28. In accordance with the requests of Under Secretary Bell on December 31 and on January 15, a study was completed of a proposed special security for the purpose of absorbing idle business balances. A memorandum was prepared, and was transmitted to the Secretary on January 2. Copies were given to Under Secretary Bell and to Mr. Morris. - Mr. Haas, Mr. Murphy, Mr. Foy

29. A memorandum was prepared on the absorption of Government securities by mutual savings banks in 1942-43, and was transmitted to the Secretary on January 5. Copies were given to Under Secretary Bell and to Mr. Morris. - Mr. Tickton, Mr. Robbins

30. At the request of Mr. Buffington on January 19, a memorandum was prepared, and was transmitted to him on January 27, with respect to a proposal to make series G defense savings bonds receivable at par for the Federal estate tax. - Mr. Foy

31. At the request of Under Secretary Bell on December 5, a report was made on the pro's and con's of the Treasury's taking over the Postal savings system from the Post Office Department, and was transmitted in a memorandum to Under Secretary Bell on January 8. - Mr. Tickton, Mr. Robbins

32. At the request of the Under Secretary on January 1, a memorandum was prepared on recent changes in excess reserves, and was transmitted to him on January 6. - Mr. Murphy, Mr. Barnett

33. At the request of the Defense Savings Staff, two tables were prepared, one showing actual and estimated receipts and expenditures of the Government for the fiscal years 1939-43, and the other showing national income. The tables were transmitted to Miss Bennett of the Defense Savings Staff on January 19. - Mr. Breithut

34. At the request of Under Secretary Bell on January 12, a memorandum was prepared, and was transmitted to him on January 15, with respect to "Large Savings" in Great Britain. - Mr. Matlock

35. At the request of Under Secretary Bell on January 17, a memorandum and table were prepared with respect to Mr. Bruere's telegram concerning defense savings bonds and mutual savings banks. - Mr. Murphy

36. At the request of the Secretary on January 29, a memorandum was prepared, and was transmitted to him on January 30, concerning Mr. Winthrop W. Aldrich's proposal for "United States Annuity Bonds". - Mr. Murphy

37. An abstract was prepared of the plan to form the "American Institute for Investment Protection" submitted by Mr. Moses Grossman, and was incorporated in a memorandum transmitted to Under Secretary Bell on January 14. - Mr. Barnett

38. At the request of Mr. Heffelfinger on January 20, a check was made on January 24, of the interest rate which would be applicable to advances by the Federal Works Agency to the District of Columbia under Public Law 362, 77th Congress, as provided by section 3. - Mr. Conrad

39. By reference from the Secretary's correspondence Division on January 16, a letter was prepared in reply to a letter from Mr. O. B. Liska, dated January 10, concerning the disposition of the proceeds of the social security taxes. The reply was forwarded on January 20 for signature of Under Secretary Bell. - Mr. Lindow, Mr. Breithut

40. At the request of the Office of Under Secretary Bell on January 7, a reply was prepared to a letter from Mr. Sidney Freeman, suggesting a compulsory savings plan coupled with a form of lottery. A memorandum was prepared on January 13, summarizing the proposal, and the letter of reply was signed by the Under Secretary on January 21. - Mr. Reagh, Mr. Murphy

41. At the request of Mr. Cunningham of the Office of the General Counsel on January 7, a review was made of a letter from Mr. Joseph H. Hill, addressed to the Secretary, which proposed a change in the terms of defense savings bonds, series E. A memorandum was prepared, and was transmitted to Mr. Cunningham on January 7, pointing out the errors in Mr. Hill's assumptions. - Mr. Reagh

42. At the request of Mr. Kuhn on January 17, a check was made of certain data to be used in promotion articles for defense savings bond sales. - Mr. Daggit, Mr. Lindow

43. At the request of the Division of Tax Research on January 27, for use in connection with a meeting of the American Bankers Association, three tables were prepared, and were transmitted to Mr. Shere on January 28, showing data used in deriving the proposed allowance for expenses of loans for purposes of bank taxation. - Mr. Murphy, Mr. Barnett

44. At the request of Mrs. Kuhn of the Office of Facts and Figures on January 6, a review was made of the appendix concerning Treasury operations appearing in the Message on the State of the Union, and the material was returned to Mrs. Kuhn on that date. - Mr. Foy, Mr. Barnett, Mr. Rosen

45. At the request of Mr. Broughton on January 3, a review was made of a new leaflet covering the 1942 issue of United States savings bonds, issued by Moody's Investors Service, and was incorporated in a letter for signature of the Under Secretary. The letter was transmitted to Mr. Broughton on January 16. - Mr. Murphy

46. Two proposed press releases were prepared at the request of Under Secretary Bell for a joint statement of the Secretary of the Treasury and the Board of Governors of the Federal Reserve System, and were transmitted to the Under Secretary on January 6. - Mr. Haas, Mr. Murphy

47. At the request of Under Secretary Bell on January 6, a review was made of his address delivered before the Washington Board of Trade on that date. - Mr. Murphy, Mr. Lindow

48. At the request of Assistant Secretary Gaston on January 19, a review was made on January 20 of his address delivered in New York on January 24. - Mr. Murphy, Mr. Rosen

49. At the request of Mr. Kuhn on January 19, comments and suggestions were transmitted to him on January 20, concerning the draft of the speech delivered by the Secretary on January 24, in Cleveland. - Mr. Murphy

50. A review was made on January 14 of the testimony by the Secretary before the Subcommittee on Appropriations on the Treasury and Post Office Appropriations Bill. - Mr. Murphy

51. At the request of the Office of the General Counsel on January 28, a report was prepared on H. R. 6391, and was incorporated in a letter to Representative Doughton, for signature of the Secretary. The file was transmitted to Monetary Research on January 31. - Mr. Foy

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Foy, Mr. Barnett, Mr. Rosen

2. A study is being made of the effect of the maturity, call period, coupon, premium, and size of issue on the prices and yields of United States securities. - Mr. Conrad

3. A memorandum is being prepared on a negotiable security on continuous sale. - Mr. Sandelin, Mr. Murphy

4. A study is being made of developments in the reserve position of the banks. - Mr. Rosen, Mr. Barnett

5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. Three tables have been completed. - Mr. Conrad, Mr. Rosen

6. A memorandum is being prepared on the advantages and disadvantages of increasing the short-term debt. - Mr. Foy

7. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Lindow, Mr. Conrad

8. A memorandum is being prepared recommending legislation terminating miscellaneous types of tax exemption analagous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. - Mr. Foy

9. At the request of Mr. Blough on December 26, an estimate is being made of the increase in interest costs to the Federal Government, the States, and municipalities, if the tax-exempt privilege were removed from future bond issues. - Mr. Murphy, Mr. Lindow, Mr. Conrad

10. At the request of Mr. Blough on December 26, tables are being prepared, showing the distribution of Federal, State, and local securities by classes of holders. - Mr. Conrad, Mr. Purvis

11. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Matlock, Mr. Simmons

12. A study is being made of the market action of the various maturity classes of Government securities in relation to the type of holder. - Mr. Conrad

13. At the request of Mr. Surrey on January 1, a study is being made of the amortization of bond premium and discount. - Mr. Murphy

14. A memorandum is being prepared for the Secretary with respect to a proposed new Defense savings bond, series H. - Mr. Murphy, Mr. Sandelin

15. At the request of Under Secretary Bell on January 26, comments are being prepared on Mr. Peyton's plan submitted by Mr. Allan Sproul with respect to Defense savings securities. - Mr. Tickton

16. A memorandum is being prepared on Mr. Viner's proposal for a new system of allotting Treasury bills. - Mr. Foy, Mr. Barnett

17. A memorandum is being prepared on the desirability of conducting the war finance as it was in the last World War, by the issuance of short-term securities. - Mr. Foy

18. At the request of Assistant Secretary Gaston on January 20, a review is being made of "A Memorandum on Financing the War" by Mr. Robert L. Owen. - Mr. Foy

19. At the request of Mr. Morris on December 16, an analysis is being made of a proposed industrial loan corporation bill of 1942. - Mr. Foy

20. At the request of Under Secretary Bell on January 26, a study is being made of H. R. 6391. - Mr. Murphy, Mr. Foy

21. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Foy

22. At the request of Under Secretary Bell on May 24, cooperation was given in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The information is for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. A proposed reply was sent to the Under Secretary on June 18. - Mr. Murphy, Mr. Foy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period January-June 1942. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher

2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in December 1941 on the daily Treasury statement basis. - Mr. Delcher

3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in December 1941, based on the collections classification. - Mr. Delcher

4. At the request of the Division of Tax Research for the Office of the General Counsel on December 26, a revenue estimate was made of the effect of the removal of the tax-exemption privilege from Federal and State income taxes, and was transmitted in a memorandum to Mr. Blough on January 15. - Mr. Dambrun

5. At the request of Under Secretary Bell on January 20, a table was prepared, and was transmitted to him in a memorandum on January 21, showing the tax liability for certain specified net incomes (all earned) of a married person (no dependents) computed under the laws in effect in the calendar years 1930 through 1941. - Mr. Leahey

6. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, were prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun

(a) An estimate was made, and was transmitted to Mr. Blough on January 10, of the amount of additional revenue that would be obtained by repeal of Section 114(b) (3) and (4) of the Internal Revenue Code, providing for percentage depletions for oil and gas wells, coal and metal mines, and sulphur, under the following assumptions; (1) that no adjustment of the income credit under the excess-profits tax would be made with respect to depletion; (2) that the depletion deduction for the base period years under the income credit would be adjusted to correspond to the basis for depletion in the taxable year.

(b) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 9, of the increase in revenue which would result from the following proposals:

Gasoline tax, increase by 1½ cents per gallon.
Cigarette tax, increase by 1½ cents per package and double all other tobacco tax rates.
Passenger automobiles, increase the rate to 30 percent.
Automobile parts and accessories, increase the rates to 10 percent.
Trucks, increase the rate to 10 percent.
Distilled spirits, increase the rate to $6 per gallon.
Tires and tubes, double the rates.
Refrigerators, refrigerating apparatus, and air conditioners, increase the rate to 25 percent.
Radio receiving sets, phonographs, and musical instruments, increase the rate to 25 percent.
Electrical, gas, and oil appliances, increase the rates to 25 percent.
Photographic apparatus, increase the rates to 25 percent.
Business and store machines, increase the rates to 25 percent.
Rubber articles, increase the rate to 25 percent.
Domestic washing machines and domestic sewing machines, impose a tax of 25 percent.

Telephone, telegraph, etc. messages imposed by Section 3465(3), increase the rates from 6 percent to 15 percent.
Transportation of persons, increase the rate to 10 percent.
Metal furniture, furnishings and equipment, beauty and barbershop equipment, metal venetian blinds, metal bed springs, soda fountain equipment, beer dispensing equipment and related products, impose a tax at the rate of 25 percent.
Lubricating oil, increase the rate to 10 cents per gallon.
Firearms, shells and cartridges, increase the rate to 50 percent.
Expand the present base of the tax on commercial washing machines to include dry cleaning and pressing machinery and equipment.
Floor coverings (except cotton) and oil cloth, impose a tax of 25 percent.
Ornamental metal work and fixtures, including metal doors, windows, fences, stairs, grills and railings, (except fire escapes), metal plumbing, and house fittings, impose a tax of 25 percent.
Expand the present base of the cosmetics tax to include soaps and dentifrices.
Furniture made of birch and mahogany, impose a tax at the rate of 25 percent.

(c) Estimates were prepared, assuming the present excess-profits tax structure, of the following:

Increases in rates required to raise (1) an additional $1 billion from the excess-profits tax and an additional $2 billion from the corporation surtax and (2) an additional $1½ billion from each, the excess-profits tax and the corporation surtax.

The increase in surtax rates necessary to raise an additional $3 billion from the corporation surtax in order to provide for the effect of a proposed additional corporation tax on dividends received by corporations.

The percent of invested capital which would have to be specified to produce an additional $3 billion, if income and excess-profits taxes were increased to take 100 percent of the excess of corporate profits over a specified percent of invested capital.

The reduction in revenue under the individual income tax under the above proposals.

These estimates were transmitted in a memorandum to Mr. Blough on January 10.

(d) Tentative approximations were made, and were transmitted in a memorandum to Mr. Blough on January 2, of the magnitude of the interlocking effects of proposed tax changes covering the entire tax structure. The aim of the proposed tax program was to secure a net yield after consideration of all interlocking effects of $7 billion. As the proposed changes did not result in an increase of $7 billion, estimates were prepared of the necessary gross yields of the several tax bases which would be necessary to yield a net amount of $7 billion after all interlocking effects have been taken into consideration. In all of these estimates alternative estimates were made, to include and exclude proposed changes in the present payroll taxes.

(e) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 8, of interpretations of the Secretary's proposal to have a 100 percent tax on profits above 6 percent of invested capital: (1) if an excess-profits tax of 100 percent of profits above a 6 percent return on invested capital is imposed before applying the present corporation normal and surtaxes; (2) if the taxes existing in the present law were first imposed and after their deduction an excess profits tax were imposed taking 100 percent of the income remaining after a 6 percent net return on invested capital; (3) if income up to 6 percent of invested capital were left free from all present taxes and an excess-profits tax were imposed taking 100 percent of the income above 6 percent of invested capital.

(f) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on January 15, of the full year yield, of proposed corporation rate schedules which would be substituted for the present normal and surtax schedules, assuming repeal of the excess-profits tax. A comparable estimate was prepared substituting a flat rate surtax of 41 percent instead of 36 percent, and substituting a surtax of $5,500 plus 61 percent of excess over $50,000 instead of a surtax of $5,500 plus 56 percent of excess over $50,000.

(g) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 17, of the number of taxable returns, calendar year 1941 income and (corresponding to taxable returns) total income, deductions, total personal exemptions, total credits for dependents, and total earned income credit.

(h) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 17, of the revenue effect of changing the excess-profits tax base and of proposed corporation normal tax and surtax schedules; (1) if the present 95 percent multiplier of base period net income is reduced to 75 percent and the invested capital credit is reduced to 6 percent; (2) if the proposed corporation normal tax and surtax schedules are used (a) without the change in the excess-profits tax base described in (1) and (b) with that change.

(i) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 24, of certain income tax data for the period 1936 through 1942 (1) for corporations with no net income, and (2) for all corporations, including both corporations with net income and with no net income.

(j) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 24, of (1) the revenue loss resulting from the repeal of the capital stock tax and declared value excess-profits tax, and (2) the increase in surtax rate necessary to compensate for the loss of this revenue.

(k) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on January 31, of the revenue effect of adoption of proposed individual income tax schedules A, B, C, E, and F.

II. Projects or studies under way

1. An analysis is in preparation of each component of the September revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel

2. An analysis is in preparation of each component of the Budget estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel

3. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, are being prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun, Mr. Lusk, Mr. Jorgensen

   (a) An estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type.

   (b) Estimates are being prepared of the following:

   The increase in revenue which would result if the corporation income tax were increased by 1 percent, and the additional revenue if the 1 percent increase were made applicable also to wholly and partially tax-exempt interest.

   The increase in revenue which would result if the individual normal tax were increased by 1 percent, and the additional revenue which would result if this increase were made applicable also to wholly and partially tax-exempt interest.

   The loss in Federal individual and corporation income tax revenue which would result from the exemption of interest on Government obligations, broken down to show separately the loss with respect to the exemption of State and local securities and Federal wholly and partially tax-exempt securities.

(c) Estimates are being prepared of the revenue effect of restoring the privilege of filing consolidated returns for purposes of the normal and surtax under the conditions stipulated in the acts prior to 1934 (1) assuming that the tax on intercorporate dividends is also eliminated; (2) assuming that the tax on intercorporate dividends is retained with respect to corporations other than those electing to file consolidated returns, and that the surtax rate for corporations electing to file consolidated returns is increased by a differential rate designed to raise from these corporations an amount of revenue equal to the tax on intercorporate dividends which the corporations in the affiliated groups would have paid under the normal and surtax had they filed separate returns.

Estimates are being prepared of the revenue effect of re-defining long-term capital gains and losses, substituting for the two classes, one class beginning at 18 months; taking into account 50 percent of net long-term capital gains and losses; increasing the alternative tax rate from 30 percent to 60 percent; allowing long-term capital losses to be deducted only against long-term capital gains, but allowing a carry-forward for five years to be offset against such capital gains in the future; taxing short-term capital gains as at present; allowing short-term capital losses to be offset against long-term capital gains as well as short-term capital gains, and permitting short-term capital losses to be carried forward five years to be offset against either short-term or long-term capital gains.

(d) An estimate is being prepared of the revenue effect if, under the individual income tax, mandatory joint returns were required for husbands and wives and the joint income treated as a single income for earned income credit purposes; in addition, a tax credit of 10 percent of the "earned income" of the wife for services rendered by her, but the tax credit is not to exceed $50. This estimate will be prepared also to show the effects for the community property States.

(e) An estimate is being made of the corporation surtax net income classes and number of corporations in each net income class, for the calendar year 1942, on the assumption that the excess-profits tax is repealed.

(f) Assuming a change in the loss carryover provision so that the carryover into 1942 would be cumulative losses during 1939, 1940, and 1941 minus the cumulative net incomes during the same three years, with a similar loss carryover in subsequent years to be based on the incomes and losses of the three years prior to the taxable year, estimates are being made under the following proposals: (1) substitute suggested schedules for the present normal and surtax schedules and repeal the excess-profits tax; (2) the same as (1) but substituting under schedule (b) a flat rate surtax of 41 percent and under (c) a surtax of $5,500 plus 61 percent of excess over $50,000; (3) estimated calendar year 1942 corporation surtax net income classes and number of corporations in each net income class, on the assumption that the excess-profits tax is repealed.

(g) Estimates are being made for a general sales tax at each of the following levels: (1) manufacturers' sales price, (2) wholesalers' sales price, and (3) retailers' sales price assuming (a) no exemptions; (b) the same as (a) but exempting products now subject to manufacturers' or retailers' excise taxes; (c) the same as (b) but exempting food; (d) the same as (c) but exempting medicines; (e) the same as (d) but exempting clothing; (f) the same as (e) but exempting fuel. Estimates are being prepared for each rate from 2 percent through 10 percent.

(h) An estimate is being made of the revenue yield which would result from the following method of gradually disallowing a deduction for interest on corporate indebtedness: Ascertain the amount of interest on the indebtedness outstanding on January 1, 1942. The maximum deduction from interest on corporate indebtedness for the year 1942 shall be 9/10 of the amount of interest so ascertained; the maximum amount deductible for 1943 shall be 8/10 of the amount so ascertained, and so on.

(i) A revision is being made of the revenue estimates for the years 1926-1940 of capital gain and loss provisions applicable to individuals and fiduciaries. Corresponding estimates are being made for the year 1941.

(j) An estimate is being made of the revenue yield of a net value added tax, assuming six different taxpayers' bases. The estimate is being prepared on two bases, and will be divided among the following components of the tax base: (1) corporate income; (2) payroll taxes broken down into payrolls now covered by social security and payrolls not now covered by social security; either because of the nature of business or occupation or because in excess of $3,000; (3) unincorporated business income, including professions; (4) interest now allowed to business; (5) net rents and royalties.

(k) Estimates are being made of the increase in revenue from the following excise tax proposals:

Tires and tubes, increase the rates from 5¢ and 9¢ per pound to 10¢ and 18¢.
Photographic apparatus, increase the rate from 10 percent to 25 percent.
Business and store machines, increase the rate from 10 percent to 25 percent and broaden the base.
Telephone bill, increase the rate from 6 percent to 15 percent.
Transportation of persons, increase the rate from 5 percent to 10 percent.
Firearms, cartridges, and shells, increase the rate from 11 percent to 50 percent.
Floor coverings (except cotton) and oilcloth, impose a tax of 25 percent.
Lubricating oil, increase the rate from 4⅓¢ to 10¢ per gallon.
China and porcelain ware, impose a 10 percent tax.
Electrical energy, increase the rate from 3-1/3 percent to 5 percent.
Gasoline, increase the rate from 1½¢ to 3½¢ per gallon.
Distilled spirits, increase the rate from $4 to $6 per gallon.

Wines, increase the rates:
Still wines --
Not more than 14 percent alcohol, from 8¢ to 15¢ per gallon. 14-21 percent alcohol, from 30¢ to 50¢ per gallon. More than 21 percent alcohol, 65¢ to 100¢ per gallon.
Sparkling wines, from 7¢ to 10¢ per ⅓ pint.
Artificial carbonated wines, from 3½¢ to 5¢ per ⅓ pint.
Liqueurs, cordials, etc., from 3½¢ to 5¢ per ⅓ pint.
Cigarettes, increase the rate from $3.25 to $4.50 per thousand.
Other tobacco products, increase the rates.
Cigarette paper and tubes, increase the rates and remove exemption.
Candy and chewing gum, impose a tax of 10 percent.
Soft drinks, impose a tax of 1¢ per bottle.
Advertising receipts, impose a tax of 15 percent on gross receipts.
Fermented malt liquors, from $6 to $8 per barrel.

(l) An estimate is being made of the revenue yield which would result if the Canadian corporate tax system were substituted for the present system in this country, assuming (1) that the Canadian system would replace the present normal, surtax and excess-profits taxes; and (2) that the Canadian taxes would replace the capital stock and declared value excess-profits tax in addition to the taxes in (1).

(m) An estimate is being made of the total revenue yield and increase over the existing law which would result from the adoption of the British individual and corporate income and excess-profits tax structure.

(n) Estimates are being made of the revenue effects of the following tax changes:

Adoption of proposed estate and gift tax schedules A and E.

Reduction of allowance for deduction of interest on a non-business individual borrowing to a fixed amount of $500.

(o) With reference to the excess-profits estimate completed on January 17, under Revenue Estimates, I, 6(h), a breakdown is being made of the income and tax figures before and after the proposed change in the excess-profits tax credit, by as detailed industrial and size classifications of corporations as is practicable.

(p) An estimate is being made of the revenue yield of a proposed tax on radio broadcasting companies.

Economic Conditions Related to Fiscal and Revenue Matters

1. Projects or studies completed

1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on January 5, 12, 19, and 26. - Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler

These memoranda contained in addition to analysis of the current situation the following special study:

Production trends by selected industrial groups. (Chart in memorandum of January 12.) - Mr. Daggit, Mr. Colclough, Mr. Saunders

2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the weekly memorandum on the business situation. - Mr. Colclough, Miss Spiegel, Miss McLachlan

3. Memoranda on employment under the Work Projects Administration were prepared on January 5, 12, 19, and 26. - Miss McLachlan

4. At the request of the Secretary, a memorandum, with three tables and a chart, was prepared, and was transmitted to him on January 18, showing employment in the aviation industry as of October 31. - Mr. Tickton, Mr. Wagner

5. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevraux

6. Daily, weekly, and monthly prices of cotton, wheat, flour, and bread, were compiled. - Mr. Daggit, Mr. Saunders, Miss Spiegel

7. In accordance with the request of Mr. Leon Henderson on July 19, copies of eight charts on commodity prices and the cost of living were transmitted to him, as indicated below. - Mr. Daggit

The movements of the NICB cost-of-living index compared with the BLS wholesale price index of 889 commodities were shown from 1935 to date. Four charts, as of January 2, 9, 16, and 23, were transmitted on January 6, 13, 20, and 27, respectively.

Four charts showed the movements of the indexes of 12 foodstuffs and 16 industrial raw materials from August 1940 to date. On the same charts were shown the percentage changes for each of the 28 commodities from August 1940 to December 26 and January 2, to January 2 and 9, to January 9 and 16, and to January 16 and 23. These charts were transmitted on January 6, 13, 20, and 27, respectively.

8. At the request of the Secretary on January 28, a memorandum and charts were prepared on export freight movements and lighterage freight in storage and on hand for unloading in New York Harbor, and were transmitted to him on that date. Copies were given to Mr. Kamarck in further response to his request of December 4. - Mr. Daggit

9. Two tables were prepared for use in possible allocation of sales of defense savings bonds showing: (1) estimated distribution of salaries and wages and farm income, August-October 1941, by States; and (2) income payments by States, 1940, with percent distribution. - Mr. Daggit, Mr. Colclough

II. Projects or studies under way

1. An analysis is being made of the distribution of Defense savings bonds, series E, during December, in relation to payrolls, and to national income, by States. - Mr. Daggit, Mr. Colclough, Mr. Saunders

Actuarial Problems

I. Projects or studies completed

1. At the request of Mr. Ecker-Racz, of the Division of Tax Research, on January 7, certain compound interest calculations were made for use in a study of the manner in which the premium on a tax-exempt bond could be amortized through tax savings. These figures were transmitted in a memorandum to Mr. Ecker-Racz on January 9. Later, on the basis of revised assumptions, new calculations were made, and were transmitted on January 19. - Mr. Brown, Mr. Kroll

2. A computation was made on January 15, on two yield bases, of intermediate redemption values during the first five-year period on a proposed ten-year special security to absorb idle business balances. The average yield over the entire ten years was also computed. These figures were included in a memorandum prepared by Mr. Murphy which was submitted to Under Secretary Bell on January 16. - Mr. Brown, Mr. Kroll

3. On January 8, Mr. Fisher, Chief, Retirement Division, Civil Service Commission, asked several questions relative to the amendment of June 23, 1938 to the Civil Service Retirement Act to permit an allowance of credit for service rendered since August 1, 1920, without deposit of member contribution but the annuity of the employee to be reduced by the amount such deposit would purchase if made. Mr. Fisher's questions were answered in a letter dated January 10, which included numerical illustrations of the operation of this amendment. - Mr. Reagh, Mr. Brown

4. Conferences were held in the office of Under Secretary Bell on January 28, which resulted in the preparation of a proposed draft of a letter to Senator Wagner, Chairman of the Committee on Banking and Currency, setting forth the Treasury's views on S. 2918. - Mr. Reagh

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. Valuation plans are in process of preparation. - Mr. Reagh, Mr. Brown

2. The Foreign Service Retirement Law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuation at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". The State Department has requested an estimate of the appropriation required for the fiscal year 1943. A valuation of June 30, 1941 has been completed and will form the basis of the estimate for the fiscal year 1943. - Mr. Reagh, Mr. Brown, Mr. Kroll

3. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, an actuarial quinquennial valuation is being made of the Policemen's and Firemen's Pension Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriation Act, approved July 1, 1941. The work for the valuation has been begun. - Mr. Reagh, Mrs. Grossman

4. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Subcommittee on Retirement, has again become active. A report has been prepared but has not yet been submitted to the main committee. - Mr. Reagh, Mr. Brown

5. At the request of Dr. Falk of the Social Security Board on January 7, a review was made of a preliminary draft of the Second Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. The draft was returned on January 22 with marginal notes. - Mr. Reagh, Mr. Murphy, Mr. Brown

6. Mr. Fisher, Chief, Retirement Division, Civil Service Commission, requested on December 12 a set of factors which would be needed for the computation of immediate annuities under H. R. 3487 if this bill should be enacted into law. Approximate factors were submitted to Mr. Fisher in a letter dated December 31. The bill became law on January 24, and on January 26 Mr. Fisher formally requested the Board of Actuaries to prepare sets of factors to determine the immediate annuities of those eligible for retirement under section 1(d) and section 5(a) of the Act. A reply to the request is being prepared by Mr. Buck, Chairman of the Board, and will be submitted to us for consideration and approval. - Mr. Reagh, Mr. Brown, Mr. Kroll

Other Projects or Studies

1. Publications

(a) For the January issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Barnett

All the material submitted for the January issue was reviewed and edited. - Mr. Lindow, Mr. Lynch

New tables were prepared for the January issue as follows:

1. A table showing monthly sales of defense savings bonds, classified by series, sales outlet, and denomination. - Mr. Brown, Mr. Kroll

2. A table showing monthly sales of tax anticipation notes, classified by series, type of purchaser, and denomination. - Mr. Mayo

3. Three tables on public marketable securities issued by the United States Government and by Federal agencies showing price and yield data for each issue. - Mr. Brown, Mr. Kroll

4. A cumulative table of contents by each of the past twelve months. - Mr. Lynch Mr. Wagner

(b) For the publication Prices and Yields of Public Marketable Securities Issued by the United States Government and by Federal Agencies, computations were made and copy was prepared for the issue covering the month of December. - Mr. Brown, Mr. Kroll

(c) At the request of Under Secretary Bell on January 24, a draft of the proposed review of "Treasury finance and the new budget" for the February Federal Reserve Bulletin was reviewed, and cleared by telephone on January 26. - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Robbins

3. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Miss Ziegler, and other members of the staff in appropriate fields of work.

During January 510 letters were received in the Division and 578 were handled as required.

4. Charts

Charts are prepared and continuously brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of January is attached.

Work Completed in the Graphic Section, Division of Research and Statistics, during January 1942.

Type of work	For Division of R & S	For Others	Total
phic:			
Ew charts:			
Total charts completed	62	19	81
Bond book charts completed	2	-	2
Charts brought up to date:			
3 bond chart books brought up to date	26 times	-	26(t)
All other charts brought up to date	732	32	764
Miscellaneous:			
Total jobs	13	6	19
tographic:			
Photographic:			
Total jobs	80	36	116
Number of-			
Negatives	223	186	409
Contact prints	223	614	837
Enlargements	259	117	376
Photostats:			
Total jobs	214	83	297
Number of-			
Lettersize copies	5,213	3,861	9,074
All other copies	2,927	473	3,400
Multilith:			
Total jobs	15	2	17
Number of-			
Zinc plates	139	5	144
Miscellaneous:			
Total jobs	17	14	31

Statistical Report of Work Completed by the
Graphic Section, Division of Research and Statistics, by months.
Beginning January 1942

Type of work	Jan.	Feb.	Mar.	April	May	June	Total
A. Graphic:							
New charts completed	81						
Charts brought up to date	764						
Bond book charts completed	2						
3 bond books brought up to date	26 (t)						
Miscellaneous	19						
B. Photographic:							
Photographs:							
Total jobs	116						
Number of-							
Negatives	409						
Contact prints	837						
Enlargements	376						
Photostats:							
Total jobs	297						
Number of-							
Lettersize copies	9,074						
All other copies	3,400						
Multilith:							
Total jobs	17						
Number of-							
Zinc plates	144						
Miscellaneous:							
Total jobs	31						

MAR 20 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending March 10, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,

The White House.

Enclosure

HDW:mch
3/17/42

M.M.C.
copies to Dr. Wilcox

By Messenger Simmons 1:00

Ret. to Secy's Office

MAR 20 1942

My dear Mr. Perkins:

I am enclosing five copies of the report on our exports to some selected countries for the period ending March 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milo Perkins,
Executive Director,
Board of Economic Warfare,
2501 Que Street, N. W.,
Washington, D. C.

Enclosures

H. M. C.
Copies to Dr. White

By Messenger Simmons 1:00

HDW:mch
3/27/42

Rt to Secy's Office

MAR 20 1942

My dear Mr. Perkins:

I am enclosing five copies of the report on our exports to some selected countries for the period ending March 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milo Perkins,
Executive Director,
Board of Economic Warfare,
2501 Que Street, N. W.,
Washington, D. C.

Enclosures

H. M. C.
Copies to Dr. White

By Messenger Simmons 1:00

HDW:mch
5/27/42

Ret to Secy's office

MAR 20 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries for the period ending March 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable
The Secretary of State,
Washington, D. C.

Enclosure

HDW:mch
3/17/42

n. M.C.
copies to Br. White

By Messenger Stergis 1100
Ret. to Sec'y's Office

MAR 20 1942

My dear Colonel Donovan:

I am enclosing copy of report on our exports to some selected countries for the period ending March 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Colonel William J. Donovan,
Coordinator,
Office of Coordinator of Information,
Old National Institute of Health Building,
25th and E Streets, N. W.,
Washington, D. C.

Enclosure

HDW:mch
3/17/42

N.M.C.
Copies to G. White

By Messenger Simmons 1:00
Ret. to Secy's Office

MAR 20 1942

My dear Sir Frederick:

I have received your letter of March 16, telling me that additional capital is required for the Packard Motor Car Company, two-thirds of which is to be paid by the British under the terms of the contract, and asking my help in getting the War Department or the Defense Plant Corporation to meet this expenditure.

At the moment, I am attempting to get the Defense Plant Corporation to conclude its long-pending negotiations for the purchase of your plant facilities, and, for that reason, I am not sure that it would be wise for me to write Mr. Jones about this additional matter, particularly since the amount involved is so small. I believe you will agree with me that my efforts can best be used on the larger program.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Sir Frederick Phillips,
British Purchasing Missions,
Willard Hotel,
Washington, D. C.

By Messenger Shorts 1:00
Photo file Dr. White
cc-H.M.C.

JEH/gro - 3/18/42

Willard Hotel,
Washington, D.C.,
March 16, 1942.

URGENT

Dear Mr. Secretary,

May I bring the following case to your notice ?

The production of Merlin engines by the Packard Motor Car Company was undertaken under arrangements by which:-

1. The Defense Plant Corporation put up the money for one-third of the capital facilities required, and the British Government put up the money for the remaining two-thirds; and

2. The War Department put up the money for one-third of the manufacturing costs, and the British Government financed the remaining two-thirds.

The contracts state definitely that everything in the way of expenditure and output shall maintain the ratio of one to the Americans and two to the British. This ratio has so far been maintained except in the case of orders for spare parts. These are to be supplied under Lend-Lease, but we have been forced, for the time being, to preserve the 1:2 ratio by financing temporarily two-thirds of the cost of the spares subject to a new ratio being worked out (as is now being done) to replace the 1:2 ratio, and subject to the refund to us of any money which we have put up in excess of what would be required by the new ratio.

On capital facilities, however, the 1:2 ratio has so far been maintained, the last occasion on which more capital was put up having been about a year ago.

It has now been agreed that new capacity must be provided for Packards to keep themselves supplied with cutting and other consumable tools and the cost involved is about $790,000. On the 1:2 ratio our share of this would be $524,500.

I do not think that we ought to be asked to put up fresh dollars at the present stage for extension of capital facilities, but I understand that the British Air Commission have not been able to make any progress in recent discussions with the War Department and the Defense

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

Plant Corporation with a view to arriving at some alternative solution. I cannot feel that there is anything so sacred about the 1:2 ratio that we must continue to stick to it, and anyhow it is being altered, as explained above, as regards the spare parts. My feeling is that we have a strong case for asking that the whole cost of the new facilities should be put up either from War Department or from Lend-Lease funds.

The matter is very urgent if the necessary tools are to be obtained. I should be most grateful for any help which you can give us in the matter.

Yours sincerely,

F Phillips

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1942.

TO Secretary Morgenthau

FROM H. D. White

I am appending some letters for your signature.

Letter No. 1 - To Secretary Jones requesting information in action on the purchase of facilities.

Letter No. 2 - To Secretary Stimson requesting information on the payment for material taken from British dollar contracts.

Letters No. 3 and 4 - Alternative letters to Sir Frederick in answer to his letter to you of March 16, copy of which is appended to Letter No. 3. I prefer Letter No. 3 which indicates, in effect, that the amount involved is too small to justify your spending any time on it at present. Letter No. 4, the alternative suggestion, states that you will take it up with Jones. If you sign Letter No. 4, then you should also sign Letter No. 5, which takes the matter up with Mr. Jones.

Letter No. 6 - This is the letter Aubrey Williams would very much like to have you send to the Senator. We drafted it together (one horse - one rabbit -- my end being the rabbit) and I think it would be very helpful if you could see your way clear to sending it.

Dear Jesse:

Sir Frederick Phillips has recently written me that, under the terms of the British contract with the Packard Motor Car Company, the British Government is required to make an additional capital expenditure of $524,500.

Since the United States Government is negotiating for the purchase of British armament plants built in the United States, it seems inconsistent to require the British to make additional capital expenditures.

I wonder if the Defense Plant Corporation could find a means of relieving the British Government from the necessity of making this expenditure?

Very sincerely yours,

Secretary of the Treasury

Mr. Jesse Jones,
Reconstruction Finance Corporation,
Washington, D. C.

JEH/grs - 3/19/42

My dear Sir Frederick:

I have received your letter of March 16, stating that the terms of your Packard airplane engine contract requires that you provide an additional $500,000 of capital, and asking my help in relieving you of this expenditure.

I have always maintained that the Defense Plant Corporation should take over British armament facilities in the United States, and, accordingly, I see no reason why the Defense Plant Corporation should require additional capital expenditures upon your part at this time.

I shall write a letter to Mr. Jones stating that, in my opinion, it would be inconsistent for this Government to require that your Government make this additional capital expenditures.

Very sincerely yours,

Secretary of the Treasury

Sir Frederick Phillips,
British Purchasing Missions,
Willard Hotel,
Washington, D. C.

JHH/grs - 3/18/42

MAR 19 1942

Dear Henry:

For the past four months I have been receiving letters from the War Department, the Lend-Lease Administration, and the British Purchasing Missions, referring to the fact that various planes and other military supplies originally intended for Britain are being taken over by the United States Army for its uses or for shipment to Russia. Most of the letters refer to the method that will be used to reimburse the British Government, but since there are several types of diversions involved, the letters disagree with each other, and consequently, I find that I do not know either the amounts involved in the diversions, or the type of reimbursement that the British will receive in any of the transactions.

As I understand it, the types of diversion are as follows:

1. Diversions of materials from British dollar contracts (a) for the use of the United States Army, and (b) for shipment to Russia in fulfillment of United States obligations to Russia under the Moscow Protocol;

2. Diversions from British Lend-Lease allocations (a) for the use of the United States Army, and (b) for shipment to Russia in fulfillment of United States obligations to Russia under the Moscow Protocol.

Some of the information that I have received, leads me to believe that the British will receive payment in dollars for the planes and materials diverted from their own dollar contracts, but I know that my information is not complete.

I should appreciate it if you would tell me how much is involved in each of the types of transfer, and what the Army's decision about payment has been on each.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable Henry L. Stimson,
Secretary of War,
Washington, D. C.

M.M.C.
Copies to Dr. White
By Messenger Received 10:30

JEH/grs - 3/19/42

MAR 20 1942

Dear Jesse:

I am writing to inquire about the status of the Defense Plant Corporation's negotiations for the purchase of British armament facilities in this country.

It was my understanding that it was agreed last summer that a list of eleven British plants, whose purchase was recommended by the President and by the War Department as useful for the nation's defense, would be purchased by the Defense Plant Corporation. It was also my understanding that the War Department had agreed to the repurchase of the plants, and that completion of their transfer waited only on the accounting work necessary to determine the values of the facilities.

I wonder if this program cannot be completed? During the next six months, when payments due upon British commitments made before the Lend-Lease Act will still be large, some assistance to the British will probably be necessary, and the purchase of these plants is one of the best ways that that assistance can be given within the letter and spirit of the pledges made to Congress when the Lend-Lease Bill was being discussed.

The eleven British facilities in question were said to have cost the British Government about $79 million, of which about $55 million was thought to be recoverable. In addition to these eleven plants, however, the British offered last summer a second list of facilities that, I understood, they were going to discuss with you. One of these, the Todd shipbuilding yards, is about to be sold to the Maritime Commission, but there are five remaining facilities, which cost the British about $22 million, and which might have a recoverable value of about $16 million. These facilities are the following: Crucible Steel, Savage Arms, Oerlikon-Canada, American Type Founders, and National Pneumatic.

I shall appreciate your telling me whether the British have proposed the sale of these facilities to you, and whether the War or Navy Departments has agreed to their repurchase.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Jesse Jones,
Reconstruction Finance Corporation,
Washington, D. C.

JEH/grs - 3/19/42

n M.C.
Copies to Mr White
By Messenger Simmons 1100

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Secretary Morgenthau

FROM Mr. Haas

In accordance with your request, I am submitting herewith a brief statement on the Canadian price control plan, with a chart showing relative trends in cost of living and retail food prices in this country and Canada. The statement has been submitted to research divisions of the OPA and BAE, and incorporates suggestions that they have made.

Attachments

Canadian inflation-control program.

On December 1, 1941, after previous unsuccessful attempts to control prices, Canada put into effect an overall price ceiling as part of a far-reaching program of inflation control. This 5-part program consists of (1) a general ceiling on retail prices, with limited exceptions, (2) a ceiling on wages and salaries, supplemented by cost-of-living bonuses, (3) curtailment of public spending through taxation and war savings programs, (4) a system of industrial allocations, with prospective consumer rationing, and (5) subsidies to producers of essential farm products, to maintain supplies without increasing costs to consumers.

While it is probably too early to determine the effectiveness of the Canadian program, a levelling-out of the Canadian cost-of-living index and index of retail food prices since November 1941 may be significant. The attached chart shows the official Canadian cost-of-living index and the index of retail food prices, in comparison with similar official indexes for this country. For comparability, both are converted to an August 1939 base.

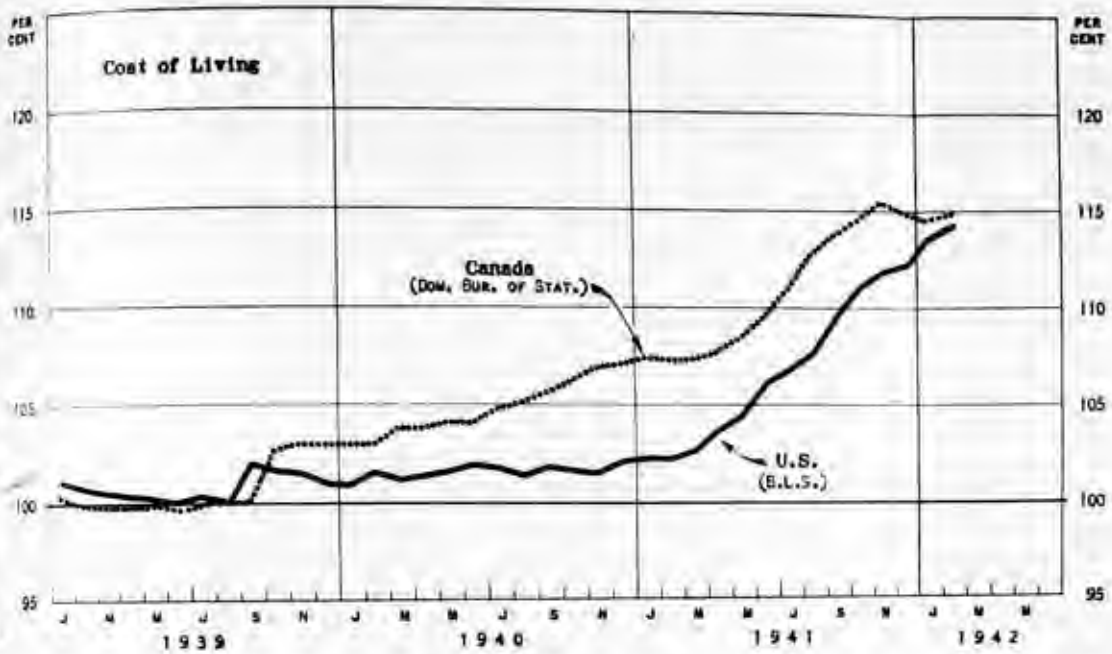
The Canadian figures (as of the 1st of each month) show that the cost of living index in February was 0.5 percent lower than last November, and that the index of retail food prices was 1.8 percent lower. (The Order in Council establishing ceiling prices was issued November 1, the base period for the ceilings having been announced on October 18.) Figures for the United States (as of the 15th of each month) show in the same period a rise of 2.2 percent in living costs and a rise of 3.3 percent in retail food prices.

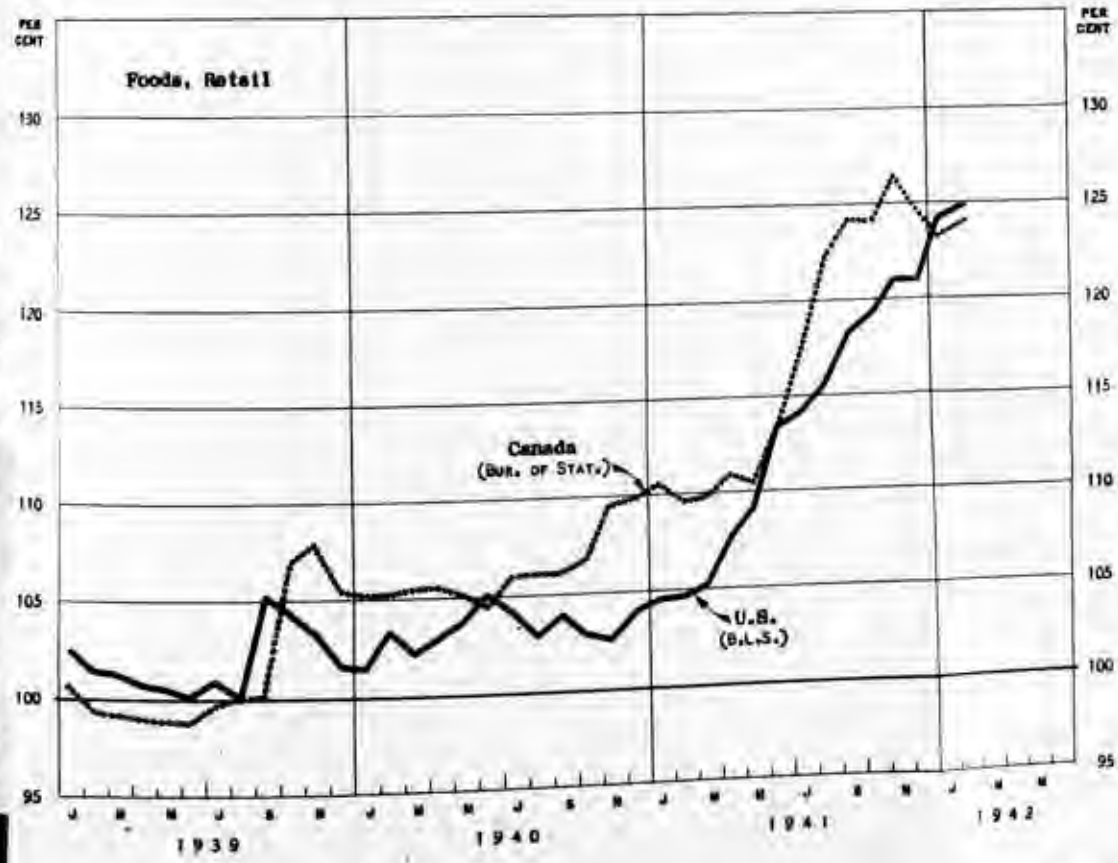
The Canadian price ceiling is essentially a rigid ceiling on retail prices, applying to all commodities (unless specifically exempted), to twelve essential services, and to the rental of all real property. A major administrative problem is the "rolling back" of squeezes between retail prices and basic costs, which is accomplished in part by the payment of various Government subsidies.

Attachment

COST OF LIVING, U.S. AND CANADA

August 1939 = 100





C - 412

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

March 20, 1942.

Dear Mr. President:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

n ms. c.
copies to D. Hass
Delivered by SS Agt. 2:25

GCM:jm 3/20/42

March 20, 1942

Dear Mr. Nelson:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Donald M. Nelson, Chairman,
War Production Board,
Washington, D. C.

GCE:jm 3/20/42

M.M.C.
Copies to Hass
By Messenger Simmons 5:30

March 20, 1942.

Dear Henry:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Sincerely,

(Signed) Henry

Honorable Henry A. Wallace,

Vice President of the United States.

A. M. C.
Office to Hass

By Messenger Planned 9:00 am 3/21/42

D:Ri jm 3/20/42

March 20, 1942

Dear Marriner:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Sincerely,

(Signed) Henry

Honorable Marriner S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

GCH:jm 3/20/42

Copy C.
Copies to Hass
By Messenger Lemmon 5:30

March 20, 1942

Dear Leon:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Sincerely,

(Signed) Henry

Honorable Leon Henderson, Administrator,
Office of Price Administration,
Washington, D. C.

N.W.C.
copies to Hopkins
By Messenger Simmons 5:30

GCH:jm 3/20/42

March 20, 1942.

Dear Mr. Sproul:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York, N. Y.

M.C.
Copies to Dr. Hanes

O.H:jm 3/20/42

MAR 20 1942

Dear Mr. Berle:

Reference is made to your letter of March 11, 1942, informing me that the Minister of Iceland in Washington has been authorized to sign a stabilization agreement on behalf of the Bank and of the Government of Iceland. I note that the State Department wishes to be informed whether the Treasury Department is now willing to enter into a stabilization agreement with Iceland involving a commitment not to exceed the equivalent of $2 million.

When the stabilization agrangement was being discussed with the Iceland officials in October and November, 1941, there appeared to be good grounds for anticipating a shortage of dollar exchange available to Iceland. Since then there have been developments which suggest that Iceland should no longer be in need of any dollars. Though we would not hesitate to consummate the agreement drafted at that time if the circumstances still warrant, it appears to me that the situation ought to be reexamined before a decision on that point is reached.

I have asked Mr. Harry White to arrange a conference to examine the situation in the light of these developments.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Adolf A. Berle, Jr.,

Assistant Secretary of State.

Please return to Secretary's office

Photo file U.S.A. C
File to Thompson

FAS:esh
3/14/42

By Messenger Surgis 1:00 pm

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
No 850A.61/20

March 11, 1942

My dear Mr. Secretary:

Reference is made to a series of conferences during October and November 1941 between the Under Secretary of the Treasury, members of the Icelandic Government Trade Delegation and representatives of the State Department regarding the conclusion of a stabilization agreement between the United States and Iceland. It will be recalled that after a tentative text of a stabilization agreement had been determined upon, the Icelandic Government Trade Delegation requested that the matter be held in abeyance until it could return to Iceland and discuss the text with the Government in Iceland.

The Department has now received a telegram from the American Legation at Reykjavik, a copy of which is enclosed, setting forth the texts of documents signed by

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

by the Icelandic Minister of Finance and by officials of the Landsbanki Islands (National Bank of Iceland) authorizing the Minister of Iceland in Washington, Mr. Thor Thors, to sign a stabilization agreement on behalf of the Bank and of the Government of Iceland.

The Department would appreciate being informed whether the Treasury Department is now willing to enter into a stabilization agreement with Iceland involving a commitment not to exceed the equivalent of two million dollars.

Sincerely yours,

For the Secretary of State:

Adolf A. Berle, Jr.
Assistant Secretary

Enclosure:

Telegram from Reykjavik,
no. 140, March 5.

TEM

GRAY

Reykjavik

Dated March 5, 1942

Rec'd 1 a.m. 6th

Secretary of State,

Washington.

140, March 5, 6 p.m.

Department's telegram no. 129, November 21, 7 p.m., and Legation's mail despatch no. 41, November 25, 1941.

The Minister of Finance has just deposited with me new documents in the name of the Icelandic Minister in Washington. These documents are in English and read as follows:

One. "With reference to an Act no. 130 of December 19, 1941 paragraph one, authorizing the Government to guarantee a working loan for the National Bank of Iceland, I the undersigned, Jakob Moller, Iceland's Minister of Finance, acting on behalf of the Treasury do confer upon the Icelandic Minister in Washington, Mr. Thor Thors, full and unrestricted power of attorney to sign a declaration on the Icelandic Treasury as guarantor of full and due repayment of principal and payment of interest on a loan

on a loan not exceeding two million dollars (repeat $2,000,000) which the National Bank of Iceland proposes borrowing from the Stabilization Fund, Washington, D.C., United States of America.

Reykjavik, this 4th day of March 1942.

Signed: Jakob Moller".

Two. "This is to certify that Landsbanki Islands, Reykjavik, hereby gives the Iceland Minister in Washington, Mr. Thor Thors, a full and unlimited power to sign a Stabilization Fund's agreement with the Secretary of the Treasury of the United States of America, amounting to maximum equivalent of United States dollars two million (repeat $2,000,000 United States dollars). Whatever Minister Thors may do in connection with this matter is equally valid as if we had done it ourselves.

Done in Reykjavik the 4th day of March 1942.

Landsbanki Islands.

National Bank of Iceland.

Signed: Vilhjalmur Thor.

Signed: Petur Magnusson."

The Minister of Finance expressed the hope that with the deposit of these full powers with the Legation it will be

it will be possible for the Icelandic Minister in Washington to proceed to sign the loan agreement without delay. Appropriate instructions are being sent to him. Original documents will be forwarded in next pouch.

BARNES

NPL

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RS
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Chungking via N.R.

Dated March 20, 1942

Rec'd 4 p.m.

Secretary of State,

Washington.

252, March 20, 2 p.m.

Reference Department's 110, February 14.

Please inform Treasury that Central Bank of China has delivered checks drawn on Treasurer of the United States in an aggregate amount of $14,460 and requests that a corresponding amount be credited to Central Bank of China amount in Federal Reserve Bank of New York.

GAUSS

CSB

Copy:lc:3/21/42

NHC
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Chungking via N.R.
Dated March 20, 1942
Rec'd 4:07 p.m.

Secretary of State,
Washington.

253, March 20, 3 p.m.

FOLLOWING FROM ADLER FOR FOX CARE OF SECRETARY OF THE TREASURY.

"TF 23

One. Board would appreciate transmission of following message to Federal Reserve Bank 'Statement of accounts from Board's inception to date most urgently required. Please forward by quickest available route. If any statement sent to Chungking office, cable date of despatch, period covered, and route.' Smith accountant from Calcutta here and preparing of board report for three governments would be greatly facilitated by early receipt of Federal Reserve Bank's statement. If you are returning fairly soon, suggest you bring statement with you otherwise best to send it by diplomatic pouch care of me.

Two. Doctor Kung would like to know approximate size of treasury smuggling prevention force. If not inconvenient, could you ascertain and let me know?"

GAUSS

LMS

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Y

DEPARTMENT OF STATE
WASHINGTON

March 20, 1942

In reply refer to
FD 740.0011 Pacific War/2064

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 284, dated January 26, 1942, from the American Embassy, Chungking, China, regarding a coordination committee in Chungking to deal with economic questions.

Telegram no. 60 referred to in the despatch was transmitted to Treasury under date of January 28, 1942; and despatch no. 266 was transmitted February 19, 1942.

/

Enclosure:

From Embassy, Chungking,
no. 284, January 26, 1942.

No. 284 Chungking, January 26, 1942

Subject: A Coordination Committee in Chungking to deal with Economic Questions.

Air Mail

CONFIDENTIAL

The Honorable,
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to refer to my telegram no. 60, January 25, 12 noon
1/2/ and to enclose copies of two memoranda in regard to the suggested formation of a coordination committee or "Allied Economic Council" in Chungking to interest itself in China's financial and economic problems.

At this stage and time I have nothing of substance to add to the comment in my reference telegram. There are serious economic problems in China which should be dealt with seriously and constructively. A committee of competent persons with authority under a loan or credit agreement and with Chinese cooperation should be able to make a real contribution to a solution of those problems and at the same time increase Chinese ability and willingness to continue resistance against Japan. In my despatch no. 266 of January 8, 1942 I have, in suggesting the directions in which financial aid might be given to advantage, indicated the fields in which such a committee might interest itself. The problem is not, I feel, simply one of supporting Chinese currency. The progress of currency inflation should certainly be moderated if possible; it cannot however be reversed. A deflationary policy resulting in a reduction in the production of consumers' goods would be in error and have unfortunate consequences. Encouragement to the production and the importation, if feasible, of goods should I am convinced be the primary objective of financial policy in this area now, and if a foreign credit or loan can be used to that end and an economic coordination committee can effectively aid in such utilization, I believe the one should be granted and the other established. The financial and economic experts should be able to determine whether such a program is feasible but its success will depend largely on the degree of real cooperation given by the Chinese authorities.

Respectfully,

C. E. Gauss

Enclosures:
1/ Memorandum for Ambassador dated January 23, 1942.
2/ " " " " " 24, 1942.

JCV/wr
850

Original and five copies by air to the Department.

Enclosure no. 1 to despatch no. 284 dated January 26, 1942, from the Embassy at Chungking.

MEMORANDUM OF CONVERSATION
FOR THE AMBASSADOR

January 23, 1942

Subject: Suggested Formation of a Corrdination Committee to deal with Economic Problems.

Mr. Hall-Patch, Financial Attache of the British Embassy, called this afternoon. He said that, on the basis of discussions with Sir Archibald Clark-Kerr (the British Ambassador) and Sir Otto Niemeyer (Chief of the British Economic Mission to China) he had called to suggest the formation of a Coordination Committee in Chungking to deal with financial and economic problems and particularly with problems that would arise in connection with the handling of the Anglo-American credit to China, should such credit be granted. He said that he envisaged such a committee as being composed of two Americans, two British and two Chinese members, and a Chinese Secretary whom he thought should be a man of the character of T. F. Tsiang. He said that it might be advisable also to include a Dutch representative and I added that it might be advisable for similar reasons to include an Australian. He said that he thought the committee should be organized as soon as possible and that Sir Archibald Clark-Kerr was prepared to approve its organization. He said that he and one other Englishman would serve on the Committee and suggested that I and one other American serve. He thought that Dr. Kung or his deputy would wish to be Chairman and hoped that another Chinese of ability would be appointed. He asked me to refer the matter to you. I said I would do so and inform him of your answer. He said that he was going to Kunming on Monday, but that I could take the matter up with Sir Archibald or Sir Otto as both of them were informed on the subject.

John Carter Vincent

JCV/wr
True copy of signed original. w.r.

Enclosure no. 2 to despatch no. 284 dated January 26, 1942, from the Embassy at Chungking

388

MEMORANDUM FOR THE AMBASSADOR

January 24, 1942

Subject: "Allied Economic Council" at Chungking

I saw Hall-Patch again at noon today in Sir Archibald Clark-Kerr's office. Sir Archibald was also present. I called wishing to clear up a few points and obtain additional information with respect to Hall-Patch's suggestion of yesterday in regard to coordination in the field of economic and financial matters. I asked whether the proposed committee was to come into being only if China were granted credits by Britain and the United States and whether it was to deal exclusively with matters pertaining to the utilization of the credits. Sir Archibald showed me a note referring to a conversation which a Chinese official apparently had had with Dr. H.H. Kung. This note indicated that Dr. Kung had suggested that the "Allied Economic Council" in Chungking be set up without reference to the proposed credits; that it be charged with making studies and recommendations; but that it would also, when credits were granted, interest itself in the problems connected with the effective use of these credits. This note also answered the second question I had in mind, that is, whether the concerned Chinese officials were informed with regard to the proposal. I asked who had taken the initiative in suggesting the committee or "Council" and Sir Archibald said it had been more or less "spontaneous" but agreed that the initiative should properly appear to come from the Chinese.

John Carter Vincent

JCV/wr
A true copy

of signed original. w.r.

Copy:bj:3-21-42

Treasury Department 389
Division of Monetary Research

Date April 28 19 42

To: Miss Chauncey

From: Mr. White

I presented this orally to the Secretary on April 11th and the Secretary asked me to give him the highlights orally, which I did. He said it was all right - he would approve. I told him his signature wasn't necessary on the final document. I also stated that the final document would contain some modifications of this draft but they would not be important modifications.

Treasury Department
Division of Monetary Research

390

Date March 20, 1942 19

To: Secretary Morgenthau

From: H. D. White

In our tentative recommendations to Cuba some of our proposals constitute a substantial departure from some of our own practices. If you are interested in going into the matter I would appreciate it if you would do it soon as we are now discussing the preliminary report with the Cuban officials, and we are being pushed to complete our report by both the State Department and the Cuban Government.

There will be of course a final clearing in the Treasury and possibly in the Federal Reserve Board before a final report is submitted to the Cuban Government but it will then probably be too late to make more than minor changes.

Copies of the preliminary report our being sent to D. Bell, Legal Division, and State Department.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942.

TO Secretary Morgenthau

FROM Mr. White HDW

Subject: Proposed Cuban Central Bank

I am sending you herewith a copy of a preliminary draft report on the proposed Cuban Central Bank by the American Technical Mission to Cuba. The Cuban Finance Minister has requested the opportunity of discussing the Central Bank proposals with the Mission during his stay in Washington. These discussions will be based on this draft.

The attached report envisages a Cuban Central Bank having the following main characteristics and powers:

Capital Structure.

The initial capital and surplus is to be 8 million pesos (with the peso, as you know, at 1 to 1 parity with the dollar). Of this the commercial banks will contribute about 3 million pesos in cash, and the Cuban Government about 2 million in cash and 3 million in Government obligations.

The capital contribution of the commercial banks is to be fixed at 2 percent of their deposits. The Cuban Government will make a cash contribution sufficient to bring total cash contributions to 5 million pesos. The 3 million pesos of securities contributed by the Cuban Government will create a paid-in surplus for the Bank.

An Export-Import Bank loan to help the Cuban Government meet its cash contribution should be considered if it proves difficult for Cuba to raise this money at home.

Management.

The Cuban Government will control the Central Bank through control of a majority of the directors. The President of the Republic will appoint the Governor of the Bank who will serve on the Board of Directors ex officio along with the Finance Minister. The President will also appoint five other directors, two from nominees selected by the share-holding banks, and three to represent the sugar industry, other agriculture, and commerce. At least one of the two directors representing the commercial banks must be a Cuban citizen.

In addition, an Advisory Council is to be created to act as an advisory body on major matters of bank policy. This Council will consist of the Ministers of Finance, Agriculture, Commerce and Labor and a representative of the Faculty of Law of the University of Habana. Under certain conditions indicated below the Council has mandatory powers.

Loans and Investments.

The Central Bank will make primarily short-term loans to commercial banks (up to 9 months in the case of agricultural paper).

Loans to the National Government are limited to 10 percent of average annual expenditures with a provision for relaxation on vote of six-sevenths of the Directors. Loans to semi-official credit agencies (it is hoped to establish an Agricultural Bank) are limited to 15 percent of the Bank's assets.

To prevent evasion of the limitations on Government loans, open market operations in Government securities are restricted to seasoned obligations.

Loans to the public are permitted only in case of national emergency and then only with consent of the Advisory Council.

Reserve Requirements.

The Central Bank will be required to maintain gold or dollar reserves against notes but not deposits. The notes outstanding when the Bank begins operations will be considered a fiduciary issue against which no new reserves are required. Notes above this amount are subject to a 25 percent requirement.

The Bank will take over liability for existing silver certificates and the silver coins held against them. As the silver certificates are replaced with bank notes, the coins held against them will be released for other purposes.

Whenever the reserves fall below 25 percent the Bank shall be requiredto take corrective measures satisfactory to the Advisory Council. In case of emergency reserve requirements of commercial banks can be altered by the Board of Directors with approval of the Advisory Council.

Stabilization Fund.

A Stabilization Fund will be created to assist in controlling the exchange value of the peso. It will be controlled by a committee consisting of the Governor of the Bank, the Finance Minister, and a third member to be selected by the Finance Minister. Profits and losses of the Fund will be for account of the Government.

The Fund will in general hold Cuba's gold assets and issue gold certificates to the Central Bank. The Fund will have the right to borrow pesos from the Central Bank without interest to buy gold but can be directed to borrow in the open market by the Advisory Council.

On recommendation of the Fund Committee, the President of Cuba can subject exchange transactions to license by the Finance Minister.

The dollar will no longer be legal tender.

Preliminary and Confidential

American Technical Mission to Cuba

SECOND REPORT TO THE CUBAN GOVERNMENT

March 20, 1942

Personnel of Mission

G. A. Eddy, Treasury Department
A. T. Esgate, Farm Credit Administration
W. R. Gardner, Board of Governors of the Federal Reserve System
F. A. Southard, Jr., Treasury Department
H. R. Spiegel, Treasury Department
G. B. Vest, Board of Governors of the Federal Reserve System
H. D. White, Chief of Mission, Treasury Department

Principal Features of Cuban Central Bank

Preliminary Draft to serve as the basis of joint discussion

March 19, 1942

I. Capital

1. Authorized capital:- 10 million pesos in Class A and/or Class B shares and at least 3 million pesos of capital, or paid-in, surplus.
2. Original subscription:- 5 million pesos of share capital and 3 million paid-in surplus.

Commercial bank subscription:- 2 percent of each bank's deposits in some designated base period, in Class A shares of 100 pesos par value. This will amount, on the basis of present deposits, to about 3 million pesos, in cash.

Government subscription:-

(a) Enough Class B shares of 100 pesos par value to bring the original subscription for Class A and Class B shares to 50,000 (5,000,000 pesos). For example, if banks subscribe 3.0 million the Government will subscribe 2.0 million, in cash.

(b) In addition, the Government will subscribe 3 million pesos which may be paid in the form of Government obligations, to be credited to paid-in surplus. It may or may not be possible to have this subscription evidenced on the balance sheet in some way as having come from the Government.

3. Capital structure at the outset:-

Class A shares (entirely owned by the commercial banks) - Approximately 30,000 shares outstanding...	3,000,000
Class B shares (entirely owned by the Government) Approximately 20,000 shares.....	2,000,000
(Enough Class B shares will be sold to the Government to bring the total number of Class A and Class B shares to 50,000.)	
Surplus, paid-in, by the Government.....	3,000,000
Surplus, earned.....	0
Total capital funds.....	8,000,000

Authorized but unissued - 50,000 shares Classes A and B.

4. Dividends:- Dividends to be limited to 4 percent, cumulative, and perhaps limited further to Class A shares.

5. Disposition of surplus:- At the discretion of the directors the Bank may build up earned surplus or reserves without paying dividends, but dividends shall be cumulative and no surplus shall be paid to the Government so long as there are any dividend arrears. After payment of full dividends, the Bank's earnings shall be divided as follows:

50 percent to the Government and 50 percent to surplus till an earned surplus of 3.5 million pesos has been accumulated; 75 percent to the Government and 25 percent to surplus till an earned surplus of 7.0 million pesos has been accumulated; thereafter 100 percent to the Government.

In the event of liquidation of the Central Bank, any surplus after retiring stock held by banks at par plus dividends accrued and earned shall revert to the Government.

6. Adjustment in commercial bank holdings:- Commercial banks' subscriptions are to be adjusted annually to each bank's average deposits in the preceding year (or some other practical base). Each bank's subscription must not fall below 2 percent of its deposits in the preceding year. Banks whose deposits decline, however, have the option of retaining Central Bank shares previously required to be purchased. Purchases and redemptions shall be at par.

Additional shares required to be purchased by banks whose deposits have increased are to be purchased from the Central Bank at par (a) from shares turned in by other banks whose deposits have decreased, (b) from the Cuban Treasury from any of its B shares which it is willing to sell, and (c) from authorized but unissued shares of the Central Bank. Step (b) means that the number of B shares will in effect be converted into A shares.

At the annual readjustment period the Central Bank is obligated to repurchase at par any of its shares held by the commercial banks in excess of 2 percent of their deposits. Commercial banks can sell their shares only to the Central Bank. Banks desiring to liquidate may have

their stock redeemed at any time convenient to the Central Bank.

In case banks' holdings of Class A shares should decline below the amount originally sold, the Government shall not be required to purchase additional Class B shares unless it desires to do so.

7. Capital necessary to start operations:- Provision might be made for the Bank to start operations when 25 percent of its total original capital is paid in. The remaining 75 percent must be paid within 3 months but the period may be extended by the vote of the Board of Directors. Government delivery of securities for paid-in surplus may constitute the Government subscription of 25 percent.

8. Means of paying for original subscription:-

Classes A and B shares:- In peso currency, or at the discretion of the Board of Directors in certified peso bank checks.

In case the Cuban Government feels itself unable to obtain cash from other sources, the Central Bank law might authorize an Export-Import Bank loan for this purpose. However, in view of the current prosperity of the sugar industry and the strength of the Cuban balance of international payments, it seems economically desirable that the Cuban Government should obtain the cash for its subscription to Class B shares without incurring foreign indebtedness which may have to be paid back during a much less favorable period in the future.

Paid-in surplus:- To be paid for possibly in Treasury certificates of indebtedness payable 90 days after sale by the Central Bank, or upon liquidation of the Bank. They would pay no interest and would not mature so long as they were held by the Central Bank. They would be transferable and might be sold (presumably at a discount) by the Central Bank as circumstances required.

Alternatively, the securities might be made ordinary notes or bonds, bearing a market rate of interest.

In case the paid-in surplus of the Bank becomes impaired, negotiations between the Central Bank and the Government may determine desirable action, if any, regarding the impairment and the possibility of the Government's advancing additional surplus.

II. Management

Primary responsibility for management of the Bank will be vested with a Board of Directors. In addition, however, the Mission recommends creation of an Advisory Council which will at all times have the prerogative of giving advice to the directors regarding matters of policy and which under certain circumstances will have more direct powers of control.

The Board of Directors will consist of seven members as follows:

Governor of the Bank, to be appointed by the President.

Minister of Finance, ex officio.

Two directors to act as representatives of the shareholding banks. These are to be selected by the President from two panels of at least three names in each to be nominated by the shareholding banks. On one of the panels all nominees must be Cuban citizens. On the other, nominees may or may not be Cuban citizens.

Three directors to be selected by the President to represent sugar, other agriculture, and business interests. Provision might be made for the establishment of three panels of names proposed by recognized trade associations from which these three directors may be chosen by the President, but he is not required to limit his choice to the names appearing on the panels.

The two banking and the three public directors might be given staggered terms of two and three years respectively. Directors shall be eligible for reappointment.

The Governor of the Bank shall have a five-year term and shall be eligible for reappointment. The Vice-Governor and General Manager shall be appointed by the Board of Directors of the Bank.

The directors shall be paid only a very modest compensation, possibly at the rate of 10 pesos per meeting up to a maximum of 500 pesos per year plus direct expenses. The salary of the Governor of the Bank should be stipulated by law. The Governor and the Finance Minister will receive no compensation for acting as members of the Board except for any direct expenses incurred.

The duties of the Board of Directors shall be stated in the broadest possible terms since they are ultimately responsible for management of the Bank. The Board must assume responsibility for all major policy decisions but, of course, should not be called upon to make routine administrative decisions.

The Advisory Council is to consist of five members, as follows: The Ministers of Finance, Agriculture, Commerce, and Labor and a representative of the Faculty of Law of the University of Habana. The method of selection of the representative from the Faculty of Law and his term of office are not specified since Cubans familiar with the Faculty of Law may be better able to formulate proposals on this matter. He ought to have a regular term of office of, perhaps, three years. The members of the Advisory Council are to serve without compensation in any form.

The duties of the Advisory Council shall be primarily to act as an advisory body on major matters of bank policy. The Council shall have the prerogative of making its views on banking policy known to the Board of Directors whenever the Council so desires. At any time the Council shall have the right to require that the Board of Directors make an explanation of the current policy of the Board. In addition to this, the Board of Directors shall make an annual report to the Advisory Council which shall also be made public, explaining all the major policies upheld by the Bank during the previous year and giving the reasons therefor.

In addition, the Advisory Council shall have certain other powers and duties as indicated below, and particularly in regard to deficiencies in the Central Bank's required reserves, the financing of the Stabilization Fund, direct loans to the public, and emergency measures to limit credit expansion.

III. Loans and Investments

1. Accommodation to member banks:- The Central Bank can make advances with a maturity of not more than six months to banks owning stock in the Central Bank on the security of any assets satisfactory to the Central Bank, and can discount obligations of sound value bearing the endorsement of a stockholding bank maturing in not more than six months or, in the case of agricultural obligations, not more than nine months.

2. Loans to special lending institutions:- The American Mission is strongly of the opinion that the Cuban economy is in need of official or semi-official agencies to extend credit for agricultural, industrial, public works, and mortgage purposes, and the Mission urges the early establishment of such agencies.

   The Central Bank should be empowered to acquire obligations of each of these agencies to be created to serve special lending needs, subject to some effective protective limitation. It might be provided that the obligations must be short-term or bear the guarantee of the Government and that not more than 15 percent of the Central Bank's assets may consist of the obligations of any one of these agencies unless a larger amount is authorized by the affirmative vote of six members of the Board of Directors. Obligations of a lending agency

discounted with the Central Bank with the endorsement of a commercial bank, in accordance with paragraph (1) above, are to be regarded as coming outside of the 15-percent limitation just mentioned.

3. Loans to the Federal Government:- The Bank can lend to the Government up to five percent of the Government's budgeted expenditures during the then-current fiscal year on the affirmative vote of five members of the Board of Directors. After the total of such loans outstanding on the books of the Central Bank has reached a total equal to 10 percent of the annual average budgeted expenditures during the current and next preceding fiscal years, no further loans can be made to the Government except on the six-sevenths vote of the Board of Directors.

4. Open-market purchases of Government securities:- The Bank can purchase direct obligations of the Republic of Cuba which have been outstanding for at least one year (or possibly at least two years) whenever such purchases are required to carry out open-market credit policy. Purchases are to be made in the open market at prevailing prices. It may also be desirable to authorize open-market purchases of open-market issues of official credit institutions if guaranteed by the Government.

5. Other open-market investments:- If the available supply of direct obligations of the Republic of Cuba is too small to permit effective open-market policy, the purchase of other seasoned, first-grade bonds which have been outstanding for two years or more will be permitted.

6. Emergency loans to the public:- In cases of emergency or national necessity, the Board of Directors shall be authorized to make direct loans to the public but only with the approval of the Advisory Council.

7. Sale of assets:- The Central Bank shall be empowered at its discretion to sell any assets which it is authorized to acquire.

8. Speculative loans:- The Bank might be enjoined from purchasing or lending upon assets issued to finance speculation in stocks, real estate, or commodities, provided that the law can be worded so as not to interfere with desirable operations.

IV. Foreign Exchange Fund

1. Management:- A committee of three, consisting of the Minister of Finance, the President of the Central Bank, both ex officio, and one member selected by the Minister of Finance.

2. Conduct of operations:- By the Central Bank, under the direction of the Foreign Exchange Committee, as fiscal agent for the Government.

3. Powers:- The Fund can buy, hold, pledge, and sell gold, silver, foreign exchange, and possibly also peso currency and deposits; borrow; and invest its assets in high-grade securities.

4. Source of the Fund's foreign exchange:- Purchases in the open market and deliveries by exporters of part of the foreign exchange proceeds of their sales abroad, as provided by present law. The Finance Minister shall continue to have full discretion to exempt classes of exporters, refuse acceptance of foreign exchange under conditions where this may be desirable, and modify the requirements placed upon exporters.

   The Fund can buy and the Central Bank is required to sell any gold or foreign exchange assets held by the Central Bank at the discretion of the Fund.

5. Source of the Fund's pesos:- The Fund shall have the right to borrow pesos from the Central Bank without interest up to the limit of the cost of foreign exchange or gold held by the Fund. The Fund may be given the further right to borrow from the

public up to the cost of its gold or foreign exchange and to pledge said gold or foreign exchange to secure such loans.

Whenever in the opinion of the Advisory Council the Stabilization Fund is obtaining an undue volume of credit from the Central Bank and thereby causing an unwarranted expansion in the reserves of the commercial banks, the Advisory Council can require the Fund to obtain further peso credits from the open market instead of the Central Bank. Under these circumstances the Fund will be obliged to conduct its credit operations in the manner specified by the Advisory Council until in the opinion of the Advisory Council, the Fund can once again be allowed to obtain Fund credits from the Central Bank if it desires.

6. Treatment of profits and losses:- Profits and losses of the Fund shall be for the account of the Treasury. Profits may be turned over to the Treasury at the discretion of the Fund committee. The reimbursement of losses shall be at the discretion of the Cuban Government.

7. Publicity on Fund profits:- Audited reports showing the disposition of Fund profits and any dispositions of foreign exchange or gold made at prices other than the prevailing market price are to be published regularly at reasonable intervals after the transactions take place.

8. Foreign exchange for the Government:- The Fund shall continue to supply foreign exchange to meet Government requirements at par.

9. Foreign exchange licensing:- On the recommendation of the Fund committee, the President of the Republic can subject all foreign exchange transactions and international movements of funds to license by the Minister of Finance.

V. Reserve Requirements of the Central Bank

There should be reserve requirements only against the Bank's note liabilities. That is to say, there will be no reserve requirements against the Bank's deposit liabilities.

The Bank will take over the liability for outstanding silver certificates and acquire as an asset the silver coin held against them. Worn silver certificates may gradually be replaced with bank notes and, as this happens, the coin held against them will be freed for other purposes. The Bank, however, will at no time have to hold reserves against the notes thus issued to replace silver certificates.

The full amount of peso currency certificates outstanding when the Bank starts business will constitute a fixed fiduciary issue to which Cuba may be regarded as already adjusted. Net expansion of the currency by the Bank thereafter will be subject to a reserve requirement of 25 percent in gold or dollars or in obligations of the Stabilization Fund backed 100 percent by gold or dollars.

Whenever the legal reserves of the Bank fall below the 25 percent requirement, the Bank shall immediately undertake corrective measures and shall make a monthly report on these to the Advisory Council. If the Advisory Council is not satisfied as to the adequacy of these measures, it shall have the authority to require the Bank to alter its program to the satisfaction of the Advisory Council. This authority shall continue in effect until the legal reserves of the Bank are once again at or above the minimum requirements.

VI. Reserve Requirements of Commercial Banks

1. Against demand deposits:- 25 percent, of which 20 percent shall be in deposits at the Central Bank.

2. Against time deposits:-

Possibly the same as on demand deposits, or alternatively, they may be reduced at the discretion of the Bank to a minimum of 5 percent, of which 3 percent must be held on deposit in the Central Bank. The Bank is to have power to define and issue regulations concerning time deposits.

3. Emergency credit control:- In case of threatened over extension of bank credit, the Board of Directors with the approval of the Advisory Council, may require that deposits of commercial banks in excess of a given level be secured by legal reserves higher than those regularly required, but not over 100 percent. Conversely under special emergency conditions, the Board with the approval of the Advisory Council, may authorize a reduction in the regular reserve requirements.

VII. Miscellaneous Provisions

Legal tender position of the dollar:- The dollar shall no longer be legal tender.

Other functions of the Central Bank:- The Bank will hold deposits only of commercial banks, the Government, governmental institutions, and foreign governments and central banks.

Symbol for the peso:- Some symbol should be adopted other than the dollar sign now used, in order to facilitate differentiation between the peso and the dollar.

COPY

AF

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Bombay

Dated March 20, 1942

Rec'd 11:16 a.m.

Secretary of State,

Washington.

208, March 20, 1 p.m.

Department's 68 to Calcutta.

Total amount of United States Treasury checks cashed by National City Bank of New York at Bombay and delivered to this Consulate is $25,657.18.

INFORM TREASURY

DONOVAN

EDA

Copy:bj:3-21-42

TELEGRAM SENT

DM
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

March 20,1942
1 p.m.

AMERICAN CONSULATE GENERAL,
CAPETOWN, (UNION OF SOUTH AFRICA).

30

FROM TREASURY

Your 31, March 17, 3 p.m.

QUOTE 1. Please have consular officer present at time South African Reserve Bank wraps currency to observe that halves, with a copy of list enclosed, are separately packaged and that the packages are sealed. Upon receiving the bank's statement that the currency has been cut in half, that the name of the bank appears on each half of the currency, and the amount of currency in each package, the consular officer can then issue to the bank a receipt for the currency. The receipt given by the consular officer should stipulate that the currency is subject to count, verification and examination.

2. The Consulate General is authorized to store the sealed packages in the vault of the South African Reserve Bank pending delivery to the Post office just prior

-2- #30 March 20, 1 p.m. to Capetown

prior to the sailing of the carrying vessel.

3. It is not necessary that the currency be shipped by diplomatic pouch.

4. All other instructions contained in telegram No. 11, February 9, 9 p.m., should be followed. END QUOTE.

WELLES
(ACTING)
(FL)

FD:FL:ME

C
O
P
Y

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 703.5400/30

March 20, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith paraphrases no. 307 of February 3, 1942 to Bern and no. 931 of March 7, 1942 from Bern, concerning Swiss-American negotiations in the protection of American interests by the Government of Switzerland.

Enclosures:

1. To Bern, no. 307, February 3, 1942.
2. From Bern, no. 931, March 7, 1942.

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PARAPHRASE OF TELEGRAM SENT

TO: AMLEGATION, Bern

DATED: February 3, 1942, 10 p.m.

NUMBER: 307

The amount of 1,502,145.92 Swiss francs received by the Swiss National Bank through the Banco de Portugal at Lisbon from the Federal Reserve Bank represent at the rate of 23.30 the counter-value of the $350,000 mentioned in the Department's telegram no. 139, January 17, 1942 to Bern, and are not to be understood as supplementing the latter as mentioned in section four of telegram no. 210, January 21, 1942 from the Legation.

The Legation is authorized, when necessary, to use these francs to cash drafts drawn against special deposits with the Department with SAA 1942 or other "authorization numbers" or other funds which SAA 1942 do not include. For the drawing of such drafts to the order of the United States Treasurer the accounting should be as usual and in addition the drafts should be also accounted for and sent to the Department as deposits to authorization no. 105-1942 accompanied by a fully explanatory despatch. Of such drafts, the firsts and seconds should be drawn and forwarded via separate facilities so that reimbursement to the authorization numbers cited and future availability for later telegraphic transfers will be assured.

The use of these francs, which were to be separately accounted for under authorization no. 105-1942 and originally intended for use only in the representation by the Swiss of American interests, will by such authority have the effect of liberalizing their use under a form of revolving fund for the encashment of drafts drawn for other necessities.

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PARAPHRASE OF TELEGRAM
RECEIVED

FROM: AMLEGATION, Bern

TO: Secretary of State, Washington

DATED: March 7, 1942, 3 p.m.

NUMBER: 931

Reference is made to telegram no. 307 of February 3, 10 p.m. to the Legation, and other correspondence concerning the provision of funds for the representation by the Swiss of American interests.

On February 4 one million francs of the total of 1,502,145.95 Swiss francs received was advanced to the Swiss Foreign Office to provide for expenses of American interests. Francs in the amount of 51,142.66 of the balance have been so far obligated to cover payments as directed by the Department.

Because allotments to field officers to date exceed the first advance by already 200,000 francs a second advance of one million francs has been requested in the Foreign Office's note of February 27.

The Legation yesterday, March 6, inquired informally of the National Bank whether our Treasury draft in the amount of $200,000 would be purchased by it at once against Swiss francs for the use of the Foreign Office and was told that the question would be given consideration and that the decision of the bank would be given on Wednesday, March 11, to the Legation.

HUDDLE

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3/21/42

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 20, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£62,000
Purchased from commercial concerns	£17,000

Open market sterling remained at 4.03-3/4, with no reported transactions.

In light trading, the Canadian dollar reacted to 12-3/4% discount by the close, as compared with 12-7/16% yesterday.

The Argentine free peso advanced 6 points to a final quotation of .2375.

In New York, closing quotations for the foreign currencies listed below were as follows:

Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	3/16% premium

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Central Bank of the Colombian Republic shipped $293,000 in gold from Colombia to the Federal for its account, 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¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

COPY NO. 13

BRITISH MOST SECRET.

(U.S. SECRET).

OPTEL NO. 93.

Information received up to 0700/20).

1. NAVAL.

One of H.M. Trawlers is overdue at Iceland and must be considered lost.

2. MILITARY.

BURMA SITTANG FRONT - 16th - Enemy estimated at One Battalion and two Batteries began attack northwards up the main road from NYAUNGLEBIN. They were engaged by our artillery and infantry and withdrew after suffering casualties. During the night 17th/18th our forward troops withdrew to new positions.

IRRAWADDY FRONT - Enemy patrols have been reported as far North as Sitkwin but the main enemy strength is still South of Taikkyi about 45 miles north of Rangoon.

RUSSIA.

The Russians have made some progress North-east of Kharkov and Nyaunglebin. They are also attacking East of Orel.

3. AIR OPERATIONS.

LIBYA - 18th. Boston again bombed aircraft on Martuba landing ground.

BURMA - An individual report states that on the 18th in a combined R.A.F.-A.V.G. raid on Moulmein aerodrome and Satellite at least 15 enemy aircraft were destroyed on the ground. The Japanese bombed Toungoo heavily on 18th and 19th.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 20, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports

British Survey of European Military Situation

A. Russia

The Russians are maintaining severe pressure in many sectors, in spite of difficult weather conditions. The British believe this is highly satisfactory, since it is occurring at a time when the Germans urgently need to withdraw forces in preparation for the spring.

B. Balkans

There are no signs of an imminent military move against Turkey. German strength is unchanged.

C. Germany

According to intelligence reports, the great destruction caused by the R.A.F. raid on the Renault Works in Paris has caused severe criticism of the German High Command by Nazi Party authorities. The military forces are attacked for leaving the factory completely unprotected.

(U.K. Operations Report, March 5-12, 1942)

Battle of the Atlantic

About 40 U-boats are operating, mainly in the Western Atlantic and the Caribbean. Minor concentrations are off Freetown in Africa and north of England.

(U.K. Operations Report, March 5-12, 1942)

R.A.F.

The British used Lancaster bombers for the first time in the second week of March. (The Lancasters are highly secret, four-motor bombers, about which very little information is available.)

(U.K. Operations Report, March 5-12, 1942)

'VOICE OF THE CHIEF'

Denouncing the 15 percent reduction in present fat rations effective April 6, the Chief warns the "helpless idiots of the German Nutrition Board" that this measure will result in a spotted typhus epidemic raveging the Reich.

As to the German Nutrition Board's argument that there is "an alleged decrease of hogs from 25 to 15 million head," "Last summer, the idiots had not the guts to cut fat rations, although such step would then have harmed nobody. They said last year that such a cut would endanger the people's morale. Well, today something much more serious is at stake than morale: our nation's health.

"Every medical expert warns that once spotted typhus is here, it cannot be combatted. Thus, the thing to do is to prevent typhus. But this is possible only by two things - cleanliness and sufficient food. And what do those unbelievable stupid Party Bureaucrats do? First, they decrease the fat contents of soap by 15 percent. And now, they further decree shortened soap and fat rations...."

(Foreign Broadcast Monitoring Service, Federal Communications Commission, March 18, 1942)