MR. BUFFINGTON: You have got to lay a little more ground work here, I think.

MR. BRYCE: Well, you have got the background. I was talking about trying to sell some bonds.

MR. HAAS: Couldn't you put in most of the terms? You could probably say you are going to have a half percent, and it would be less than a year. In other words, you would just leave open the maturity part of it which would give the person a pretty good idea what that security is. If you just say, "A certificate, no coupon, no maturity, and so on," it might be - you could say, "A half percent and less than a year."

MR. BRYCE: But the important thing is the order. I mean, you wire Johnsons and Company you are going to have something, and he comes back and says he wants a half million, and he can't say that until he knows what you are talking about. That to a bond man is the important news.

MR. HAAS: Oh, I see.

MR. BRYCE: Do you see my point? And I should think that any corporation that had any sense and had a letter from the Secretary of the Treasury saying, "Do you want to hear this thing," would automatically write back and say, "Yes, I want to hear about it," whether he buys it or not. That is something else. If he buys it, that is what you are interested in. You want him to buy it right along.. That is my - coming in fresh here, that is my slant.

MR. BUFFINGTON: Well, Jerry, the reason you say that--

H.M.JR: You wouldn't know whether he bought it.

MR. BUFFINGTON: But we have talked other types of securities than certificates of indebtedness.

MR. BRYCE: You would have it coming back here, and

you would have control of the thing. Does that make any sense?

MR. BUFFINGTON: I like the idea of it coming back here.

MR. BRYCE: You could run the whole show right here.

H.M.JR: Well, you are not thinking of their sending the checks in here.

MR. BELL: No, just the indications as to whether they are interested and all the mailing lists would be here, the way George plans. We mail out the material from Washington.

H.M.JR: Well, I have gotten over in these fifty minutes what I had in my mind. Have you got time to continue the thing a little bit right now, Dan?

MR. BELL: Yes.

H.M.JR: Well, will tomorrow morning be all right? I would like to - when do you think you will be ready to have another talk?

MR. BELL: Tomorrow.

H.M.JR: How early?

MR. BELL: Oh, I think - it won't take very long to revamp these letters.

H.M.JR: Want to start at nine-fifteen?

MR. BELL: I think we will be ready.

H.M.JR: Well, let's start again at nine-fifteen.

Now, when do we want to see Eccles and Sproul?

MR. BELL: Well, I think we ought to see them not later than Wednesday.

H.M.JR: I think that is too far off.

MR. BELL: Do you want to see them tomorrow afternoon?

H.M.JR: I was going to say eleven o'clock tomorrow.

MR. BUFFINGTON: Could we set this to ten because there are one or two things I would like to talk over with Mr. Bryce about the investment bankers' activity in this thing, which is another important point, if you are going to use them on the sixth of April.

H.M.JR: We could make it ten o'clock.

MR. BUFFINGTON: It would give us a little more time.

H.M.JR: An hour to clear ourselves and ask Eccles and Sproul to come over here at eleven.

MR. BELL: Yes.

H.M.JR: Or would you rather have it in the afternoon?

MR. BELL: No, I think that is all right. I think Sproul will come down tonight.

H.M.JR: But if we tell them what the thing is at eleven in the morning, they can go back and chew the rag and come back and see us in the afternoon. I think it ought to be settled tomorrow. You could be telling - talking it over with your own boys on the assumption that a lot of this stuff would come in, how would you handle it.

MR. BELL: You mean the list?

H.M.JR: Yes. You see, I don't know - let me give you one other thought. I don't know whether businesses are interested in a six-months or five-year or twenty-year. I don't know when they begin to subscribe. I think the only way to tell is if we are going to get out this kind of thing that every one of these things we should

make a real effort to go to them direct, and I think that just the way I signed millions of letters to go out over my signature every month for the people in Defense Bonds - I don't know how many millions of letters I mailed a month, but there was all this tremendous circulation to people hoping that they would subscribe to one hundred dollars. Why shouldn't the Secretary of the Treasury send a letter to the fellows that might invest a million? We are literally sending, I suppose, several million letters a month over my signature begging people to buy twenty-five dollars a month. Now, why should the Secretary of the Treasury send - why shouldn't I send a letter to these? That is what I am trying to do, and, as I said, I want to get other groups in selling. I don't want it to be in the hands of one kind of people. I would like a little competition.

MR. BRYCE: We will work that out for you.

H.M.JR: Have you got it in your mind now?

MR. BRYCE: I have been talking a lot here, probably too much.

H.M.JR: I mean, if you go in with Mr. Bell and the others.

B. M. Edward isn't in town, is he?

MR. BELL: He will be here Wednesday morning.

MR. BRYCE: I wrote him a letter the other day. He wasn't in town then.

MR. BELL: He will be here Wednesday morning at that meeting.

H.M.JR: What I would like to have is somebody to come in and say, "If we are going to do it, this is the kind of letter we would like to see you send out," and then the thing will step right through and we will have a plan.

MR. BRYCE: All right.

H.M.JR: Now, if it is rushing to much, let's tell Eccles and the others to come in at three, Dan. Do you think it is rushing you a little bit too much? Maybe it is.

MR. BELL: Well, let's try it anyhow.

MR. BUFFINGTON: O.K., we will try it at ten.

MRS. KLOTZ: You can't make it at three.

H.M.JR: Let's try it, because if we are going to do it, there is an awful lot of work to be done.

MRS. KLOTZ: Are you going to tell him?

MR. BELL: Yes. Do you want to hear any of this other stuff?

MRS. KLOTZ: You have press.

H.M.JR: I have press in three minutes.

MR. BUFFINGTON: Did you have an opportunity to read the other memorandum of the discussions I had with these people?

H.M.JR: No, I did not.

MR. BUFFINGTON: I am having this one proofread. Would you mind reading it just to get a little idea where those funds are?

H.M.JR: No, send it up to the house.

What are the other things, Dan?

MR. BELL: Well, there are a good many other things. One is the wire we sent to the Federals asking them to comment on this certificate of indebtedness.

H.M.JR: Well, I will read that stuff between nine and ten tomorrow morning.

MR. BELL: O.K. Then I have got this fifty thousand Series G Bonds, statistics on them.

H.M.JR: Will you come in at nine-fifteen tomorrow morning, and we won't expect these other gentlemen until ten.

MR. BELL: All right.

H.M.Jr; And you and I will work forty-five minutes on the other thing.

MR. BELL: This is just information that you wanted to have, that is all.

H.M.JR: How is nine-fifteen?

MR. BELL: Fine.

H.M.JR: George, are we moving too fast for you?

MR. HAAS: No, I think it is all right.

H.M.JR: What do you think?

MR. HAAS: It is all right.

H.M.JR: Think about the money market end of it.

MR. HAAS: Well, it gets difficult. It is one of those problems, but I think there are solutions for it. I agree with Dan we have got so many problems, let's not make another one, but it is one of those problems I think you can solve.

H.M.JR: Sure you can solve it. Dan has solved lots worse ones than this.

MR. HAAS: He will solve that one, too, as far as that goes.

H.M.JR: The worse thing that can happen to us is that we get cash instead of ten percent down.

MR. BELL: No, it will be cash. Ten percent isn't the problem.

H.M.JR: But I say we will be getting cash.

MR. BELL: It is the full cash for a billion-dollar issue on the day you offer it.

H.M.JR: Now, one other--

MR. BELL: That you don't want.

H.M.JR: Don't forget we want to decide on the allotments too, and I think we ought to put that in the letter. I think that is most important, up to fifty thousand or a hundred thousand subscriptions will be allotted in full.

MR. BELL: Well, that is the thing that I wanted to discuss with you.

MR. BRYCE: Will be allotted in full?

H.M.JR: Yes, that is the important thing.

MR. BRYCE: I just wondered what if you got a big flood of orders.

H.M.JR: We will take them all.

MR. BUFFINGTON: We have got plenty to sell.

MR. BELL: We had better make this a three-billion-dollar issue then.

MR. BUFFINGTON: We will take them all.

MR. BRYCE: Yes, I get it. I was a little slow there.

H.M.JR: But the point is, if a fellow knows that up to fifty or a hundred thousand dollars he is going to get full allotment, I think he will be more interested.

MR. BRYCE: Yes, he will get what he is after.

MR. BELL: We have never said that.

H.M.JR: I know we haven't. You shouldn't send me out to the desert.

MR. BELL: It is terrible.

MRS. KLOTZ: He should go with you, I think.

MR. BELL: We have said "preferred allotment," but we have never said "allotment in full."

H.M.JR: Well, you shouldn't send me out.

MR. HAAS: That is the height of preferred.

March 30, 1942

Secretary Morgenthau

George Buffington

In accordance with your suggestion, I interviewed company officials last week at the Federal Reserve Banks in the following cities:

Boston, Massachusetts
Detroit, Michigan
Cleveland, Ohio

Mr. Abbot Mills accompanied me to Boston and was present at the interviews there. He then went to St. Louis alone to conduct similar discussions in order to make the findings in all four districts available to you promptly.

There is being prepared a detailed account of the findings in each of the four cities. Without exception, corporation officials are ready and anxious to cooperate with the program to finance the war.

In many instances the industrial companies holding idle cash balances have large war contracts and it is expected much of these funds will be required for working capital. Generally, insurance companies and other financial institutions, other than banks which were not interviewed, regard the tap issues as suitable media for investment. Life insurance companies are striving to earn the 3% guarantee to policyholders but there appears to be room in most portfolios for expansion in holdings of Government securities.

With one exception, the people interviewed in Boston expressed the hope that some means could be devised to eliminate the necessity of padding subscriptions for Government issues. Finance committees are being asked to approve excessive subscriptions to secure required allotments. They all realize these commitments may become hazardous.

The automobile industry in Detroit has some idle cash but defense contracts appear likely to absorb much of these funds after July 1, 1942. A substantial part of their inventory in process is frozen. The companies interviewed regard stocks of new cars in dealers' hands as a contingent liability. Final liquidation of new cars will ease the situation however. As an

offset, there is a lag of thirty days or more in payments received from the Government on some contracts whereas automobile manufacturers have been accustomed to receiving payment in cash for new cars sold.

The situation in Cleveland seems to be much tighter than in any of the other cities visited. Most of the companies interviewed have war contracts and a number of them are borrowing at present or will require bank loans in the future. Several of the steel companies in the Ohio district will require additional blast furnace capacity this year.

While it may be early to determine the effectiveness of the payroll savings plan, several people interviewed expressed disappointment in the results to date. It appears that much of the idle funds estimated to be available in certain industries are being absorbed by higher taxes and higher labor costs. The opinion was expressed that if earnings of these companies are to be recaptured by the Government to finance the war effort, a more intensive drive will be required to increase payroll savings.

GB:amo

MEMORANDUM

March 30, 1942.

RE: INVESTMENT OF IDLE BUSINESS FUNDS

The following people were interviewed at the Boston Federal Reserve Bank on Tuesday, March 24, 1942:

1. New England Mutual Life Insurance Company
   Mr. G. W. Smith, President
   Mr. S. S. Hall, Jr., Financial Secretary

2. John Hancock Mutual Life Insurance Company
   Mr. Stack
   Mr. Mitchell

3. U. S. Smelting, Refining and Mining Co.
   Mr. George Mixer, Secretary and Treasurer

4. United Fruit Company
   Mr. T. Jefferson Coolidge, Chairman of Board of Directors

5. Massachusetts Investors Trust
   Mr. Charles F. Rowley, Trustee
   Consolidated Investment Trust
   Mr. Roger Amory, Trustee

6. United Shoe Machinery Corporation
   Mr. H. G. Donham, Executive Vice President
   Mr. W. M. Kemp, Treasurer

7. United-Carr Fastener Corporation
   Mr. Arthur W. Kimbell, Vice President and General Manager

1. New England Mutual Life Insurance Company. Mr. Smith stated that they have invested approximately 20% in Government securities. In recent months they have increased somewhat their holdings in utility bonds in order to lift the average rate of return. To date they have been able to maintain 3.30% earning which has enabled them to cover the 3% guarantee to policyholders.

with lower interest rates, this has only been made possible through transfer of excesses in mortality reserves. Mr. Smith said that there has been no appreciable increase in loans on policies although a continued increase in the cost of living may result in a higher rate of loans in the future. He stated that most companies are reducing farm mortgages. Statistics indicate that a substantial part of this reduction is going into Government securities. The company wants to cooperate with the Government in its financing program but is not particularly interested in the long tap issues on account of the rate being below the level of their guarantees to policyholders.

2. John Hancock Mutual Life Insurance Company. This company has approximately 14% of its holdings in Government securities. They believe a long tap issue would be attractive and Mr. Stack thought his executive committee would be interested in purchasing such an issue in substantial amounts. Apparently the laws of many states provide that all assets of insurance companies are subject to immediate sale at the discretion of the Board of Directors. Just how the State authorities would regard the necessary redemption notice provided in the proposed tap issues, he does not know but he believes it will be broadly interpreted and not interfere with their purchasing tap issues.

3. U. S. Smelting, Refining and Mining Company. Mr. Mixer states that at the present time the company is spending more than their annual depreciation in exploratory and development work. They have approximately $4,000,000 of idle funds. In addition,

they carry a fire insurance fund of $1,000,000. While Mr. Mixer does not regard bills and certificates of indebtedness as suitable for their needs, he believes the company can well afford to buy the contemplated five-year tap issue.

4. United Fruit Company. Mr. Coolidge believes all corporations having excess cash should invest in bills and certificates of indebtedness. While his company will be glad to buy the five-year tap issues in an effort to cooperate with the Government, he believes that the issuance of this type of security is a mistake because he thinks there may be large redemptions at a time less favorable for Government financing than at present. The United Fruit Company will undoubtedly have an increased amount of idle funds because they have had to suspend temporarily their shipbuilding program. He believes also it is a mistake to increase the annual purchase limit of "F" and "G" bonds inasmuch as he does not regard them as an instrument of saving but rather as an investment and believes that heavy redemptions may follow at an inopportune time for the Government to refinance.

5. Massachusetts Investors Trust; Consolidated Investment Trust. Both Messrs. Rowley and Amory expressed the opinion that there is some hazard in the Government's offering a five-year tap issue to individuals. If sales are restricted to corporations however, they do not believe it will lead to much liquidation in the general market. They also believe there will be little increase in the volume of purchases of "F" and "G" bonds by trusts if the limit is raised above $50,000 inasmuch as they feel the

present limit is adequate for most trust funds.

6. United Shoe Machinery Corporation. The corporation has approximately $15,000,000 surplus cash at the present time. They consider a five-year tap issue suitable for their needs and will also be glad to cooperate with the Government by purchasing bills and certificates of indebtedness. Inasmuch as they have no seasonal demand, any necessity for increased working capital is indefinite and they would therefore like to avoid, if possible, the continued reinvestment of short-term securities. At the present time they are buying Tax Savings Notes against this year's tax requirements.

7. United-Carr Fastener Corporation. Mr. Kimbell stated that they are holding at the present time $1,000,000 Tax Savings Notes. It has been necessary to increase inventory substantially and he said there was little likelihood of their having any surplus funds for investment above purchase of Tax Savings Notes. He believes that many companies not engaged in defense work are absorbing idle funds through the payment of higher labor rates and feels there should be an effort to increase the purchase of Series "E" bonds by employees out of increased earnings.

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With one exception, those with whom I talked in Boston asked if the Government planned to take any further steps to eliminate the necessity of putting in large subscriptions for Government securities to assure desired allotments. Several people expressed the opinion that their executive committees were hesitant about

subscribing for bonds in excess of the amount of idle funds seeking investment.

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On Thursday, March 26, 1942, the following corporation officials were interviewed at the Federal Reserve Bank of Detroit:

1. Nash-Kelvinator Corporation
   Mr. G. V. Egan, Treasurer

2. Burroughs Adding Machine Company
   Mr. J. L. Stewart, Treasurer, and
   Mr. L. A. Farquhar, Assistant Treasurer

3. Detroit Edison Company
   Mr. Arthur D. Spencer, Treasurer
   Mr. Payson B. Foster, Assistant Treasurer and Transfer Agent

4. Scotten-Dillon Company
   Mr. Walter S. Scotten, President
   Mr. William M. Dillon, Vice President

5. The J. L. Hudson Company
   Mr. William A. Petzold, Treasurer

6. Ford Motor Company
   Mr. L. E. Briggs, Chief General Auditor

7. Packard Motor Company
   Mr. Hugh Ferry, Secretary-Treasurer

8. Standard Accident Insurance Company
   Mr. L. K. Kirk, Treasurer

1. Nash-Kelvinator Corporation. Mr. Egan stated that the company is now carrying a reserve fund of $10,000,000, half of which is invested in Government securities with a maturity of one year or less and the balance is invested in average maturities of approximately five years. In addition, they have idle cash in the business of approximately $6,000,000. If it were possible to accelerate payment on Government contracts, Mr. Egan stated that

they would require less working capital and therefore have additional funds for investment. In recent months, they have had to increase their inventory $12,000,000 and there is some likelihood that further increases may be necessary. At the present time approximately $5,000,000 of their inventory represented by refrigerators and finished cars is frozen. In 1940 the company's gross sales were $72,000,000. Last year they increased to $125,000,000 and they believe this year they have from $375,000,000 to $400,000,000 of business in prospect. The company sees little possibility of investing additional funds in Government securities at this time but as securities now held in their reserve fund mature, they will undoubtedly buy bills and certificates of indebtedness.

2. Burroughs Adding Machine Company. The company is holding $4,000,000 in Tax Savings Notes, $5,000,000 in Government securities with an average maturity of four years, and an additional $5,000,000 in cash. It now appears that Government contracts will require additional working capital. In the meantime the company will buy certificates of indebtedness in addition to their regular purchase of Tax Savings Notes.

3. Detroit Edison Company. Increased labor and material costs will make it impossible for the company to invest in Government securities. They have in contemplation this year plant extensions of approximately $15,000,000 which will absorb their entire reserve for depreciation and require approximately $6,000,000 additional cash. The company is carrying $1,500,000 long-term Governments in their casualty fund. They will have to do some financing this year.

4. Scotten-Dillon Company. The company manufactures chewing tobacco. On account of tin plate shortage, sugar restrictions, and the inability to secure licorice, the company expects a substantial decline in sales. They are holding 90-day bills and also buying other short-term Government securities. The company may accumulate some idle cash later in the year and wants to cooperate with the financing program.

5. The J. L. Hudson Company. The sales volume so far this year shows an increase of approximately 30% over 1941, represented largely by higher prices. They are buying Tax Savings Notes against estimated tax requirements and in addition are carrying $3,000,000 of long-term Government securities. While the company sees little likelihood of any increase in idle funds, they like the five-year tap issue and are anxious to cooperate with the Government in its financing program. Mr. Petzold considers it desirable to lift the limit on "F" and "G" bonds.

6. Ford Motor Company. The company's cash has declined from $150,000,000 to $100,000,000 since July of last year. It has been a policy of the company not to invest corporate funds even in short-term securities. The company's inventory amounts to approximately $100,000,000 of which Mr. Briggs estimates approximately $75,000,000 is represented by semi-finished pleasure car parts, most of which is frozen for the duration. While advances against Government contracts have eased their working capital position somewhat, Mr. Briggs sees little opportunity of the Ford Motor Company's having funds available for investment. Payrolls are running at the rate of $1,000,000 a day and as the

volume of Government business increases, he believes their cash position may decline further.

7. Packard Motor Company. The company has approximately $8,000,000 in cash and $4,000,000 in Government securities. Their inventory amounts to approximately $5,000,000. The company has approximately $8,000,000 tied up in cars in dealers' hands which they do not include in their inventory figures but Mr. Ferry considers the company has a contingent liability for this amount until the cars are sold. When and if these cars are moved out of dealers' hands, Mr. Ferry stated that they will be in a position to invest a substantial part of the $8,000,000 in short-term securities pending the time when it may be absorbed in the business. At the present time their payroll is running at the rate of $1,000,000 per week. He does not feel they can reduce their cash position until they dispose of the contingent liability on cars in dealers' hands.

8. Standard Accident Insurance Company. The company has on hand $2,250,000 in cash, $10,000,000 of Government bonds maturing one to five years and $7,500,000 of Government securities maturing five to fifteen years. The company will have approximately $4,000,000 maturing during the current year and Mr. Kirk believes they can properly buy a substantial amount of the five-year tap issues.

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On Friday, March 27, the following corporation officials were interviewed at the Federal Reserve Bank of Cleveland:

1. National Malleable and Steel Castings Co.
   Mr. C. H. Pomeroy, Secretary and Treasurer

2. Warner and Swasey Company
   Mr. I. C. Bolton, Treasurer and Director

3. Glidden Company
   Mr. Robert H. Horsburgh, Senior Vice President and Director

4. White Motor Company
   Mr. Robert C. Lee, Treasurer

5. Hershey Chemical Company
   Mr. Drake T. Perry, Secretary, Treasurer and Director

6. Republic Steel
   Mr. Reech, Assistant Treasurer

7. Pickands, Mather and Company
   Mr. Sherwin

1. National Malleable and Steel Castings Co. The company owns $1,000,000 Tax Savings Notes. They are holding cash of $1,250,000. Mr. Pomeroy stated that the company needs to maintain cash of $1,750,000 for their normal operations. Sales last year amounted to $30,000,000 and this year will run close to $40,000,000. It appears the company will be borrowing from banks by September this year.

2. Warner and Swasey Company. This company normally does an annual volume of approximately $4,000,000 with an inventory of $1,000,000. Sales this year will run $50,000,000 necessitating an increase in inventory to $5,000,000. Mr. Bolton sees little possibility of the company's investing anything in Government securities except their regular purchases of Tax Savings Notes. They are buying Tax Savings Notes currently at the rate of $1,000,000 monthly on an estimated tax for this year of $12,000,000.

3. Glidden Company. This company estimates its sales for 1942 will increase approximately 100% over 1940. At the present time they are owing a total of $21,000,000. Raw material costs in some instances are up as much as 100% over last year's level. While the company may not be able in the future to replace certain raw materials which are imported from the Far East, thereby increasing somewhat their cash, they see no likelihood of having funds for investment.

4. White Motor Company. The company expects that their sales in 1942 will be approximately three times the volume done in 1940. At the present time, they are borrowing $2,000,000 from banks. A large part of their present inventory is frozen for the duration of the war. Under present arrangements, the company is required to pay outside vendors and suppliers and submit receipted invoices to the bank holding funds advanced by the Government before they receive payment. This practice necessitates tying up their working capital. The company believes their credit entitles them to draw down funds in advance of payment which would reduce the amount of float required to clear outside purchases.

5. Harshaw Chemical Company. The company is not engaged directly in defense work although they supply materials to many companies which have Government contracts. At the present time the company sees little possibility of a decline in inventory and believes they will be borrowing from their banks before the end of the year. They are buying Tax Savings Notes at regular intervals.

6. Republic Steel. The company is working on a restricted cash position at the present time. They are holding $31,500,000 Tax Savings Notes against an estimated tax of $41,000,000. It has been necessary to spend large sums in plant improvements and the company looks forward to increased expenditures in the future. While the company sees no likelihood of accumulating any idle cash, they would be inclined to use any funds available for the purchase of their own securities.

7. Pickands, Mather and Company. Mr. Sherwin stated that the Pickands, Mather Company has never had idle cash available in the parent company but one of their subsidiaries, Interlake Steamship Company, carries an insurance fund of $2,000,000 and in addition has, at the present time, idle funds of approximately $3,000,000. Most of their available funds have heretofore been invested in Governments running from ten to twelve years. He believes certificates of indebtedness would be attractive for their purpose and believes the company will also consider the purchase of the five-year tap issue.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Obtaining information on current buying and saving habits of medium and low income groups.

In response to your request for information on the present buying and saving habits of consumers in the medium and low income groups, I have the following to report.

No information is as yet available to show actual current expenditures by families of different income groups, which can only be determined by a survey covering a selected population sample. Such a survey is now being made by the Bureau of Labor Statistics, covering approximately 1000 families in 60 selected cities, and one for rural families is expected soon to be started by the Bureau of Home Economics.

We have made every effort to expedite these surveys. The Bureau of Labor Statistics survey was intended originally to obtain information on expenditures in the calendar year 1941, after which quarterly surveys were planned for 1942. The data for 1941 were expected to be available in July. At our request, however, the Bureau contacted its field directors at New York, Chicago and San Francisco by telephone, and asked that the field workers on this project include data for the first quarter of 1942 with the present survey. The Bureau will make a preliminary tabulation for your use as soon as returns from about one-third of the total sample have been received. This preliminary tabulation is to be completed by the end of April or first week of May.

We expect to obtain from this survey the following detailed information for the calendar year 1941 and the first quarter of 1942, for the average family covered in the survey:

1. Cash income, and total (including non-money) income.
2. Number of persons in family.
3. Expenditures for the following purposes:
   a. Food.
   b. Housing.
   c. Fuel, light, etc.
   d. Household operation.

e. Household equipment and furnishings.
f. Automobile.
g. Medical care.
h. Tobacco.
i. Travel and transportation.
j. Education and reading.
k. Recreation.
l. Gifts, community welfare, etc.
m. Personal care.
n. Direct taxes.

4. Savings, in the form of
   a. Bank balances in savings and checking accounts.
   b. Government bonds and Defense Stamps (data on purchases and sales) and tax savings notes.
   c. Repayment of debts.
   d. Other savings.

The similar survey planned by the Bureau of Home Economics, covering incomes and expenditures of about 1000 families in 40 rural centers, will be started this week. The Bureau has indicated a willingness to give priority in tabulation to the items of information needed by the Treasury, and we are seeking to have the collection of data expedited. This survey, like that of the Bureau of Labor Statistics, will be continued quarterly through 1942.

The OPA is working up estimates of consumer expenditures and savings by income groups for the calendar year 1942, similar to that recently made for the year 1941. At our request the work on this project has been expedited, and the data are expected to be available within a few days. The OPA figures may be of some value as an indication of the probable patterns of spending and saving in 1942 in the lower income groups, although they are largely based on historical experience rather than on actual current data.

M E M O R A N D U M

March 30, 1942.

RE: INVESTMENT OF IDLE BUSINESS FUNDS

The following people were interviewed at the Boston Federal Reserve Bank on Tuesday, March 24, 1942:

1. New England Mutual Life Insurance Company
   Mr. G. W. Smith, President
   Mr. S. S. Hall, Jr., Financial Secretary

2. John Hancock Mutual Life Insurance Company
   Mr. Stack
   Mr. Mitchell

3. U. S. Smelting, Refining and Mining Co.
   Mr. George Mixer, Secretary and Treasurer

4. United Fruit Company
   Mr. T. Jefferson Coolidge, Chairman of Board of Directors

5. Massachusetts Investors Trust
   Mr. Charles F. Rowley, Trustee
   Consolidated Investment Trust
   Mr. Roger Amory, Trustee

6. United Shoe Machinery Corporation
   Mr. H. G. Donham, Executive Vice President
   Mr. W. M. Kemp, Treasurer

7. United-Carr Fastener Corporation
   Mr. Arthur W. Kimbell, Vice President and General Manager

1. New England Mutual Life Insurance Company. Mr. Smith stated that they have invested approximately 20% in Government securities. In recent months they have increased somewhat their holdings in utility bonds in order to lift the average rate of return. To date they have been able to maintain 3.30% earning which has enabled them to cover the 3% guarantee to policyholders.

With lower interest rates, this has only been made possible through transfer of excesses in mortality reserves. Mr. Smith said that there has been no appreciable increase in loans on policies although a continued increase in the cost of living may result in a higher rate of loans in the future. He stated that most companies are reducing farm mortgages. Statistics indicate that a substantial part of this reduction is going into Government securities. The company wants to cooperate with the Government in its financing program but is not particularly interested in the long tap issues on account of the rate being below the level of their guarantees to policyholders.

2. John Hancock Mutual Life Insurance Company. This company has approximately 14% of its holdings in Government securities. They believe a long tap issue would be attractive and Mr. Stack thought his executive committee would be interested in purchasing such an issue in substantial amounts. Apparently the laws of many states provide that all assets of insurance companies are subject to immediate sale at the discretion of the Board of Directors. Just how the State authorities would regard the necessary redemption notice provided in the proposed tap issues, he does not know but he believes it will be broadly interpreted and not interfere with their purchasing tap issues.

3. U. S. Smelting, Refining and Mining Company. Mr. Mixer states that at the present time the company is spending more than their annual depreciation in exploratory and development work. They have approximately $4,000,000 of idle funds. In addition,

they carry a fire insurance fund of $1,000,000. While Mr. Mixer does not regard bills and certificates of indebtedness as suitable for their needs, he believes the company can well afford to buy the contemplated five year tap issue.

4. United Fruit Company. Mr. Coolidge believes all corporations having excess cash should invest in bills and certificates of indebtedness. While his company will be glad to buy the five year tap issues in an effort to cooperate with the Government, he believes that the issuance of this type of security is a mistake because he thinks there may be large redemptions at a time less favorable for Government financing than at present. The United Fruit Company will undoubtedly have an increased amount of idle funds because they have had to suspend temporarily their shipbuilding program. He believes also it is a mistake to increase the annual purchase limit of "F" and "G" bonds inasmuch as he does not regard them as an instrument of saving but rather as an investment and believes that heavy redemptions may follow at an inopportune time for the Government to refinance.

5. Massachusetts Investors Trust; Consolidated Investment Trust. Both Messrs. Rowley and Amory expressed the opinion that there is some hazard in the Government's offering a five year tap issue to individuals. If sales are restricted to corporations however, they do not believe it will lead to much liquidation in the general market. They also believe there will be little increase in the volume of purchases of "F" and "G" bonds by trusts if the limit is raised above $50,000 inasmuch as they feel the

present limit is adequate for most trust funds.

6. United Shoe Machinery Corporation. The corporation has approximately $15,000,000 surplus cash at the present time. They consider a five year tap issue suitable for their needs and will also be glad to cooperate with the Government by purchasing bills and certificates of indebtedness. Inasmuch as they have no seasonal demand, any necessity for increased working capital is indefinite and they would therefore like to avoid, if possible, the continued reinvestment of short-term securities. At the present time they are buying Tax Savings Notes against this year's tax requirements.

7. United-Carr Fastener Corporation. Mr. Kimbell stated that they are holding at the present time $1,000,000 Tax Savings Notes. It has been necessary to increase inventory substantially and he said there was little likelihood of their having any surplus funds for investment above purchase of Tax Savings Notes. He believes that many companies not engaged in defense work are absorbing idle funds through the payment of higher labor rates and feels there should be an effort to increase the purchase of Series "E" bonds by employees out of increased earnings.

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With one exception, those with whom I talked in Boston asked if the Government planned to take any further steps to eliminate the necessity of putting in large subscriptions for Government securities to assure desired allotments. Several people expressed the opinion that their executive committees were hesitant about

subscribing for bonds in excess of the amount of idle funds seeking investment.

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On Thursday, March 26, 1942, the following corporation officials were interviewed at the Federal Reserve Bank of Detroit:

1. Nash-Kelvinator Corporation
   Mr. G. V. Egan, Treasurer

2. Burroughs Adding Machine Company
   Mr. J. L. Stewart, Treasurer, and
   Mr. L. A. Farquhar, Assistant Treasurer

3. Detroit Edison Company
   Mr. Arthur D. Spencer, Treasurer
   Mr. Payson B. Foster, Assistant Treasurer and Transfer Agent

4. Scotten-Dillon Company
   Mr. Walter S. Scotten, President
   Mr. William M. Dillon, Vice President

5. The J. L. Hudson Company
   Mr. William A. Petzold, Treasurer

6. Ford Motor Company
   Mr. L. E. Briggs, Chief General Auditor

7. Packard Motor Company
   Mr. Hugh Ferry, Secretary-Treasurer

8. Standard Accident Insurance Comoany
   Mr. L. K. Kirk, Treasurer

1. Nash-Kelvinator Corporation. Mr. Egan stated that the company is now carrying a reserve fund of $10,000,000, half of which is invested in Government securities with a maturity of one year or less and the balance is invested in average maturities of approximately five years. In addition, they have idle cash in the business of approximately $6,000,000. If it were possible to accelerate payment on Government contracts, Mr. Egan stated that

they would require less working capital and therefore have additional funds for investment. In recent months, they have had to increase their inventory $12,000,000 and there is some likelihood that further increases may be necessary. At the present time approximately $5,000,000 of their inventory represented by refrigerators and finished cars is frozen. In 1940 the company's gross sales were $72,000,000. Last year they increased to $125,000,000 and they believe this year they have from $375,000,000 to $400,000,000 of business in prospect. The company sees little possibility of investing additional funds in Government securities at this time but as securities now held in their reserve fund mature, they will undoubtedly buy bills and certificates of indebtedness.

2. Burroughs Adding Machine Company. The company is holding $4,000,000 in Tax Savings Notes, $5,000,000 in Government securities with an average maturity of four years, and an additional $5,000,000 in cash. It now appears that Government contracts will require additional working capital. In the meantime the company will buy certificates of indebtedness in addition to their regular purchase of Tax Savings Notes.

3. Detroit Edison Company. Increased labor and material costs will make it impossible for the company to invest in Government securities. They have in contemplation this year plant extensions of approximately $15,000,000 which will absorb their entire reserve for depreciation and require approximately $6,000,000 additional cash. The company is carrying $1,500,000 long-term Governments in their casualty fund. They will have to do some financing this year.

4. Scotten-Dillon Company. The company manufactures chewing tobacco. On account of tin plate shortage, sugar restrictions, and the inability to secure licorice, the company expects a substantial decline in sales. They are holding 90-day bills and also buying other short-term Government securities. The company may accumulate some idle cash later in the year and wants to cooperate with the financing program.

5. The J. L. Hudson Company. The sales volume so far this year shows an increase of approximately 30% over 1941, represented largely by higher prices. They are buying Tax Savings Notes against estimated tax requirements and in addition are carrying $3,000,000 of long-term Government securities. While the company sees little likelihood of any increase in idle funds, they like the five-year tap issue and are anxious to cooperate with the Government in its financing program. Mr. Petzold considers it desirable to lift the limit on "F" and "G" bonds.

6. Ford Motor Company. The company's cash has declined from $150,000,000 to $100,000,000 since July of last year. It has been a policy of the company not to invest corporate funds even in short-term securities. The company's inventory amounts to approximately $100,000,000 of which Mr. Briggs estimates approximately $75,000,000 is represented by semi-finished pleasure car parts, most of which is frozen for the duration. While advances against Government contracts have eased their working capital position somewhat, Mr. Briggs sees little opportunity of the Ford Motor Company's having funds available for investment. Payrolls are running at the rate of $1,000,000 a day and as the

volume of Government business increases, he believes their cash position may decline further.

7. Packard Motor Company. The company has approximately $8,000,000 in cash and $4,000,000 in Government securities. Their inventory amounts to approximately $5,000,000. The company has approximately $8,000,000 tied up in cars in dealers hands which they do not include in their inventory figures but Mr. Ferry considers the company has a contingent liability for this amount until the cars are sold. When and if these cars are moved out of dealers hands, Mr. Ferry stated that they will be in a position to invest a substantial part of the $8,000,000 in short-term securities pending the time when it may be absorbed in the business. At the present time their payroll is running at the rate of $1,000,000 per week. He does not feel they can reduce their cash position until they dispose of the contingent liability on cars in dealers hands.

8. Standard Accident Insurance Company. The company has on hand $2,250,000 in cash, $10,000,000 of Government bonds maturing one to five years and $7,500,000 of Government securitiea maturing five to fifteen years. The company will have approximately $4,000,000 maturing during the current year and Mr. Kirk believes they can properly buy a substantial amount of the five year tap issues.

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On Friday, March 27, the following corporation officials were interviewed at the Federal Reserve Bank of Cleveland:

1. National Malleable and Steel Castings Co.
   Mr. C. H. Pomeroy, Secretary and Treasurer

2. Warner and Swasey Company
   Mr. I. C. Bolton, Treasurer and Director

3. Glidden Company
   Mr. Robert H. Horsburgh, Senior Vice President and Director

4. White Motor Company
   Mr. Robert C. Lee, Treasurer

5. Harshaw Chemical Company
   Mr. Drake T. Perry, Secretary, Treasurer and Director

6. Republic Steel
   Mr. Resch, Assistant Treasurer

7. Pickands, Mather and Company
   Mr. Sherwin

1. National Malleable and Steel Castings Co. The company owns $1,000,000 Tax Savings Notes. They are holding cash of $1,250,000. Mr. Pomeroy stated that the company needs to maintain cash of $1,750,000 for their normal operations. Sales last year amounted to $30,000,000 and this year will run close to $40,000,000. It appears the company will be borrowing from banks by September this year.

2. Warner and Swasey Company. This company normally does an annual volume of approximately $4,000,000 with an inventory of $1,000,000. Sales this year will run $50,000,000 necessitating an increase in inventory to $5,000,000. Mr. Bolton sees little possibility of the company investing anything in Government securities except their regular purchases of Tax Savings Notes. They are buying Tax Savings Notes currently at the rate of $1,000,000 monthly on an estimated tax for this year of $12,000,000.

3. Glidden Company. This company estimates its sales for 1942 will increase approximately 100% over 1940. At the present time they are owing a total of $21,000,000. Raw material costs in some instances are up as much as 100% over last year's level. While the company may not be able in the future to replace certain raw materials which are imported from the Far East, thereby increasing somewhat their cash, they see no likelihood of having funds for investment.

4. White Motor Company. The company expects that their sales in 1942 will be approximately three times the volume done in 1940. At the present time, they are borrowing $2,000,000 from banks. A large part of their present inventory is frozen for the duration of the war. Under present arrangements, the company is required to pay outside vendors and suppliers and submit receipted invoices to the bank holding funds advanced by the Government before they receive payment. This practice necessitates tying up their working capital. The company believes their credit entitles them to draw down funds in advance of payment which would reduce the amount of float required to clear outside purchases.

5. Harshaw Chemical Company. The company is not engaged directly in defense work although they supply materials to many companies which have Government contracts. At the present time the company sees little possibility of a decline in inventory and believes they will be borrowing from their banks before the end of the year. They are buying Tax Savings Notes at regular intervals.

6. Republic Steel. The company is working on a restricted cash position at the present time. They are holding $31,500,000 Tax Savings Notes against an estimated tax of $41,000,000. It has been necessary to spend large sums in plant improvements and the company looks forward to increased expenditures in the future. While the company sees no likelihood of accumulating any idle cash, they would be inclined to use any funds available for the purchase of their own securities.

7. Pickands, Mather and Company. Mr. Sherwin stated that the Pickands, Mather Company has never had idle cash available in the parent company but one of their subsidiaries, Interlake Steamship Company, carries an insurance fund of $2,000,000 and in addition has, at the present time, idle funds of approximately $3,000,000. Most of their available funds have heretofore been invested in Governments running from ten to twelve years. He believes certificates of indebtedness would be attractive for their purpose and believes the company will also consider the purchase of the five year tap issue.

ELBERT D. THOMAS, UTAH, CHAIRMAN
DAVID I. WALSH, MASS.
JAMES E. MURRAY, MONT.
CLAUDE PEPPER, FLA.
...N J. ELLENDER, LA.
...ER HILL, ALA.
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United States Senate

COMMITTEE ON
EDUCATION AND LABOR

March 30, 1942

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

My dear Secretary Morganthau:

Thanks very much for your letter of March 21 with respect to your testimony before the Joint Committee on Reduction of Nonessential Federal Expenditures and its interpretation during the consideration of the bill, S. 2295, which is being considered by this Committee.

Your letter was read into the record of the hearings which are being held on this bill and every effort has been made to see that your views are expressed as you desire them to be.

Sincerely yours,

Elbert D. Thomas

Elbert D. Thomas

CONFIDENTIAL

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
March 16	271	300	26,413	-
17	144	300	26,569	-
18	148	300	26,721	650
19	160	300	26,861	-
20	259	300	26,902	600
21	162	none-closed	26,740	-
22	none-closed	none-closed	26,740	-
23	312	300	26,728	-
24	129	300	26,899	750
25	186	300	27,013	-
26	211	300	27,102	-
27	181	300	27,221	-
28	132	none-closed	27,089	600

March 30, 1942

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

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.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twenty-four Business Days of March, February and January 1942
(March 1-28, February 1-28, January 1-28)
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	$ 79,224	$ 86,938	$145,808	-$ 7,714	-$ 58,870	- 8.9%	- 40.4%
Series E - Banks	231,483	311,051	458,396	- 79,568	- 147,345	- 25.6	- 32.1
Series E - Total	310,708	397,989	604,204	- 87,281	- 206,215	- 21.9	- 34.1
Series F - Banks	37,828	51,820	68,290	- 13,992	- 16,470	- 27.0	- 24.1
Series G - Banks	165,902	253,391	280,292	- 87,489	- 26,901	- 34.5	- 9.6
Total	$514,437	$703,200	$952,786	-$188,763	-$249,586	- 26.8%	- 26.2%

Office of the Secretary of the Treasury, Division of Research and Statistics. March 30, 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.

CONFIDENTIAL

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
20	3,510	13,306	1,511	5,524	20,341	16,817	1,511	5,524	23,852
21	2,662	7,998	1,122	3,714	12,833	10,660	1,122	3,714	15,495
23	4,362	13,955	1,953	8,199	24,107	18,317	1,953	8,199	28,469
24	2,297	5,330	900	3,604	9,833	7,628	900	3,604	12,131
25	3,003	7,982	2,207	9,076	19,265	10,985	2,207	9,076	22,268
26	3,045	9,393	2,002	6,391	17,785	12,437	2,002	6,391	20,830
27	2,515	8,149	1,315	5,056	14,519	10,664	1,315	5,056	17,034
28	2,489	5,212	674	3,849	9,734	7,700	674	3,849	12,222
Total	$ 79,224	$231,483	$ 37,828	$165,902	$435,213	$310,708	$ 37,828	$165,902	$514,437

March 30, 1942.

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

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

[redacted]: Figures have been rounded to nearest thousand and will not necessarily add to totals.

MAR 30 1942

MORGENTHAU SAYS TREASURY LEGAL DIVISION STUDYING USE OF ITS SILVER STOCKS IN WAR INDUSTRY - SAYS TREASURY IS WORKING THIS WEEK ON FINANCING PLAN WHICH MAY BE ANNOUNCED NEXT WEEK

WASHN - THE LEGAL DIVISION OF THE TREASURY DEPARTMENT IS STUDYING THE QUESTION OF POSSIBLE UEE OD THE DEPARTMENT-S SILVER STOCKS FOR WAR INDUSTRIAL PURPOSES SECRETARY MORGENTHAU SAID AT HIS PRESS CONFERENCE TODAY

THE QUESTION IS WHETHER THE TREASURY HAS THE LEGAL AUTHORITY TO LEND SILVER FOR WAR USES WITH THE UNDERSTANDING THAT IT WOULD BE RETURNED OR REPLACED LATER ON

AT THE SAME TIME MR MORGENTHAU SAID HE STILL FAVORS THE REPEAL OF ALL SILVER LEGISLATION, WHICH WOULD PERMIT THE TREASURY TO SELL SILVER FROM ITS PRESENT STOCKS WHICH AMOUNT TO MORE THAN TWO BILLIONS OUNCES AT PRESENT -

THE TREASURY IS LOOKING INTO THE POSSIBILITY OF RELEASING SOME OF ITS SILVER UNDER LOAN AT THE SUGGESTION OF WAR PRODUCTION BOARD SECRETARY MORGENTHAU ASSERTED

HE EXPLAINED THAT THE UNITED STATES TREASURY AT THIS TIME IS NOT GETTING ANY SILVER FROM FOREIGN SOURCES BECAUSE THERE HAS BEEN A SUDDEN DEMAND FROM INDUSTRIAL USERS FOR SILVER AS A SUBSTITUTE FOR COPPER

THE SECRETARY ALSO STATED THAT HE BEGAN WORK TODAY ON FINANCING PLANS AND THAT WORK WOULD CONTINUE WITH THOSE PREPARATIONS DURING THE NEXT FEW DAYS - THE TREASURY EXPECTS TO HAVE AN ANNOUNCEMENT BY NEXT WEEK ON THE NEXT MAJOR FINANCING OPERATION WHICH WILL CONSIST OF AN OFFERING OF SHORT-TERM CERTIFICATES OF INDEBTEDNESS WITH A MATURITY OF NOT MORE THAN ONE YEAR

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Three Newspaper Articles on Silver:
Herbert Bratter: New York Herald Tribune, March 29
T. H. Carmical: New York Times, March 29
Ernest K. Lindley: Washington Post, March 30

All these articles emphasize the potential value of the Treasury's silver as a substitute for tin, copper, antimony, and other metals essential in war production.

The Government's silver policy is severely criticized and the silver bloc pointed to as an example of a selfish group working contrary to the best war interests of the country.

The consensus of the writers is that the silver now held unused by the Treasury Department could be very profitably used in war industries and that the Secretary of the Treasury should be given the power to sell silver and make it available to industry at a price lower than the present artificial price maintained by silver purchases. Several hundred million ounces of silver could be used in industry if the silver were available at a lower price or if the silver could be loaned to industry. This would release thousands of tons of scarce metals for essential war purposes.

Mr. Carmical states in his article that it is the opinion in some quarters that the Treasury is already permitted to sell below the statutory price any silver which it has not placed "in the currency stream." Mr. Lindley suggests that legislation may not be required to use Treasury silver for some industrial purposes, since the law requiring the Government to amass the silver does not specify where it shall be kept. Mr. Lindley asks, "Why not 'store' it in electric equipment, like that at Muscle Shoals or Niagara Falls?"

We have already submitted to the Legal Division for an opinion a proposal to let some 120 million ounces of free silver be used as bus bars in the manufacture of aluminum and a preliminary opinion of the Legal Division is that they think it might be done but they want to check it with the Attorney General's office if you approve.

3-30-167

James Barrett
Director Publications
A.F.L. So. States
Atlanta Ga.

Statement of Randolph E. Paul,
Tax Adviser to the Secretary of the Treasury,
Before the Ways and Means Committee
of the House of Representatives
on H. R. 6358

March 30, 1942

On March 12, 1942, I submitted a statement to your committee discussing H. R. 6358, and the Treasury's proposals for the treatment of capital gains and losses. Since then a number of witnesses have appeared before your committee or have submitted statements in support of H. R. 6358 and in opposition to the Treasury's proposals.

I should like now to present further evidence on the Treasury's recommendations on capital gains and losses, clarify the Treasury's position, and analyze the objections that have been raised by the proponents of H. R. 6358.

Our analysis leads to the conclusion that the advantages claimed for H. R. 6358 with respect to the revenue and the economic and market effects are illusory and do not justify any sacrifice of equity. The taxation of capital gains at a flat 10 percent rate is indefensible when simultaneously we are proposing that other sources of income be taxed at rates as high as 90 percent.

1. REVENUE AND TAX AVOIDANCE

The taxation of capital gains and losses affects revenue both directly and indirectly. It affects revenue directly through the taxes paid on capital gains. It affects revenue indirectly by raising or lowering the yields of other taxes, particularly corporate and personal income taxes. The proponents of H. R. 6358 claim that taxes paid directly on capital gains and losses will be greatly increased; they take little account, if any, of its indirect effects on the yields of other taxes. The Treasury believes, first, that the direct yield from capital gains and losses will be less under H. R. 6358 than under the Treasury proposal; second, that H. R. 6358 will lead to a significant loss in revenue from other taxes.

A. Direct yield from capital gains

The yield from capital gains depends on many uncertain factors: the level of the market, anticipations of future prices and future taxes, the cost or basis of the assets in the hands of the holders, the distribution of the assets by income brackets, and the extent to which individuals holding assets with gains also hold assets with losses.

Further, the immediate and the long run effects of any change in the method of taxation may differ widely. Even if lowering the tax on capital gains increased the volume of gains taken for a short period - which might happen if the tax change were not expected to be permanent - any such immediate increase in yield would be at the expense of future yield. Such a temporary increase in the volume of gains occurred as a result of the imposition of a low flat rate maximum tax on long-term gains under the Revenue Act of 1938. The estimated total net capital gains (before application of statutory percentages) of individuals and taxable fiduciaries filing income tax returns rose from $661 million in 1937 to $817 million in 1938. That this increase was temporary is shown by a decline in estimated total net capital gains from 1938 to 1939 despite a moderate rise in the stock price average. In both 1939 and 1940 the estimated total net capital gains were below the corresponding amounts in 1935, 1936, or 1937. (Exhibit 1)

It is important to note that despite the temporary increase in the volume of net capital gains for 1938 it was not sufficient to overcome the revenue effect of lowering the rate. The estimated revenue realized from capital transactions declined from $58 million in 1937 to $53 million for 1938.

The proponent of H. R. 6358 who presented the most detailed statistical evidence, Mr. Elisha M. Friedman, estimated that, entirely aside from its immediate effects, the bill would bring a permanent annual yield of between $200 million and $600 million, as compared with an average yield of $30 million a year during the decade 1931-40. Equally extravagant estimates of yield were made when the 1938 bill was under consideration. It was then estimated by a leading proponent of low tax rates on capital gains

that a return to the treatment accorded capital gains by the 1921 Act, which imposed a flat rate of 12-1/2 percent on long-term gains, would produce a yield in excess of $330 million a year. 1/ In fact, the Revenue Act of 1938, which imposed a flat alternative effective tax rate of 15 percent on long-term gains yielded only $53 million in 1938, reasonably close to the estimate of $41 million submitted at that time by the Treasury Department for a very similar proposal. 2/

Mr. Friedman's estimate that the 10 percent flat rate proposed by H. R. 6358 would yield between $200 and $600 million a year would require that between $2 billion and $6 billion of net capital gains be reported on taxable returns, after offsetting capital losses of the current year and net capital losses carried over from earlier years. Since 1938 capital gains on assets held over 2 years have been subject to a maximum flat alternative effective tax rate of 15 percent. Nevertheless, even in 1938, when there was a temporary increase in volume of long-term gains, only about $657 million of net long term gains were reported on returns of individuals and fiduciaries and in 1939 only $468 million were reported. Even the proponents of the bill do not maintain that the lowering of the effective rate from

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1/ Hearings before the Committee on Ways and Means, House of Representatives (75th Congress, 3rd Session) on Revenue Revision 1938, p. 395.

2/ Hearings before the Committee on Finance, United States Senate (75th Congress, 3rd Session) on Revenue Act of 1938, p. 710. The proposal for which the estimate was made differed from the provisions of the 1938 Act by (1) defining short-term gains or losses as those from assets held for one year or less, whereas the 1938 Act drew the line at 18 months; (2) limiting the deduction of long-term losses from other income to $2,000 but permitting a one-year carryover, whereas the 1938 Act permitted no such carryover but allowed long-term losses to be deducted from other income in the year realized without limit except that the tax could not be reduced by more than 15 percent of the net loss; (3) including 50 percent of all long-term gains or losses, whereas the 1938 Act included 66-2/3 percent of gains from assets held between 18 and 24 months.

15 to 10 percent would greatly increase the amount of long-term gains realized. Consequently, net short-term gains alone would have to be about $1-1/2 billion in order to yield the minimum estimate of $200 million revenue. This would require almost a ten-fold increase over the 1938 and 1939 gains when short-term capital gains equalled $160 and $175 million, respectively. (Exhibit 2). To yield the maximum estimate of $600 million almost a thirty-fold increase would be needed.

The only reason that has been adduced for expecting such phenomenal increases in net short-term gains is that a low tax rate would stimulate the volume of activity in the security markets where the great bulk of short-term gains arise. Net taxable gains from increased market activity would increase only to the extent that one group received the gains from the short swings while another group suffered losses that they could not utilize for tax purposes. Consequently, to increase net gains by ten-fold might require much more than a ten-fold increase in volume. Yet even in the feverish boom year of 1929, when the number of shares traded on the New York Stock Exchange was the largest in history, less than seven times as many shares were traded as in 1941. 1/

It is claimed that the present method of taxing capital gains sacrifices revenue also because individuals have a strong incentive to realize long-term losses in order to offset them against other income. This incentive to realize long-term losses would be eliminated by the Treasury's proposals since they provide that only $1,000 of losses be allowed as an offset to ordinary income.

The method of taxing capital gains is only one of many factors affecting the amount of gains realized. Other factors appear to be far more important. During the 15 years from 1926 through 1940, the method of taxing capital gains changed several times. Yet the estimated net revenue from capital gains and losses varied in the same direction as the stock price index in all years except 1929, 1932, 1937 and 1939. The only one of these years in which a change

1/ In 1929, 1,125 million shares were traded; in 1941, 171 million.

in the tax treatment of capital gains and losses was made was 1932 and the revenue change in that year was favorable. (Exhibit 3 and Chart 1). During the period from 1926 to 1931, the tax treatment of capital gains and losses was unchanged, yet the revenue varied from a peak income of $576 million in 1928 to a revenue loss of $89 million in 1931.

It is thus clear that changes in revenue have been determined primarily by changes in stock prices rather than by changes in tax methods.

The importance of stock prices in determining the realization of capital gains is shown also by Chart 2, which compares changes in the aggregate volume of net capital gains with changes in stock prices.

It is also claimed that individuals with high income pay no tax on short-term capital gains because they realize none. This contention is not supported by the available evidence. In 1938, for example, 22.8 percent of all short-term gains reported by individuals with net income were reported by individuals with incomes over $25,000, although this group reported only 10.4 percent of total net income. The corresponding figures for 1939 are 22.2 percent of short-term capital gains but only 10.0 percent of net income, and for 1940, 20.1 and 7.4. (Exhibit 4).

B. Indirect effects of capital gains and loss taxation on revenue from other sources

The capital gains tax is designed not only to yield revenue directly, but also to prevent the avoidance of other taxes. The imposition of a tax rate on capital gains substantially below that levied on other sources of income would give taxpayers a strong incentive to convert other income into capital gains. There are many ways in which this can be done. For example, corporate earnings can be retained instead of being paid out in dividends; the consequent increase in the value of the corporation's assets would tend to be reflected in the value of its capital stock. This increased value can be realized as a capital gain by selling the stock.

Similarly, a stock may be purchased ex-dividend, i.e., immediately after the payment of the dividend, and sold cum-dividend at a gain, immediately prior to the payment of the next dividend. The dividend, which accounts for part of the difference in price, is in effect realized as a capital gain.

Bonds offer additional opportunities of the same kind. A bond with a low coupon may be purchased at a discount and held to maturity, part of the interest thereby being converted into a capital gain. The demand for bonds of this type would make it profitable for borrowers to issue them.

The use of devices of this type to avoid taxes has been experienced in Great Britain where some capital gains are exempt from tax.

The liquidation of closely held corporations provides still another example of how an unduly low capital gains tax may lessen the yield of other taxes. The stockholders of a profitable corporation may liquidate that corporation, paying a low flat rate capital gains tax on any increase in value of corporate property or accumulated earnings of the corporation. They may then transfer the property received on liquidation to a new corporation, and thus at small tax cost obtain the benefits of a new and higher invested capital basis for excess profits tax purposes and a new and higher basis for depreciation purposes. With corporate taxes at the levels proposed by the Treasury, this method of avoidance would become more important than it has been in the past.

2. ECONOMIC EFFECTS OF THE CAPITAL GAINS TAX

A. Effect on the prices of capital assets

It is claimed that the present treatment of capital gains and losses accentuates fluctuations in security prices, prolonging periods of falling and rising prices. The argument is that a fall in prices is prolonged because investors are encouraged to realize losses deductible from other income and are discouraged from repurchasing by the tax on short-term gains. The Treasury proposal, by preventing losses from being offset against other income, would remove the incentive to loss realization; by providing a five-year carryover of

losses, it would remove reluctance to repurchase after the realization of losses since later gains could be offset against earlier losses. Under the Treasury proposal, therefore, the capital gains tax could not contribute to the prolongation of a decline in security prices.

It is maintained that a rise in security prices is prolonged because investors are reluctant to realize gains on which they will have to pay the tax. The effect of the capital gains tax on the prolongation of a price rise depends on whether it merely discourages people from switching from one security to another or also discourages sales by persons who would not at once buy some other security. The discouragement of "switching" sales clearly has little or no effect on the level of stock market prices. In a "switching" sale the purchase of one stock, which tends to increase its price, is preceded or accompanied by the sale of another stock, which tends to reduce the price of that stock.

On the other hand, to the extent that the capital gains tax discourages sales that would not have been followed promptly by repurchases the level of the market affected might be effected. However, if an individual plans to get out of the market, he will want to get out as near the top as possible, tax or no tax. It is clearly in his interest to pay the tax on a larger gain than on a smaller gain.

As evidence that the capital gains tax tends to prolong a price rise, data have been cited to the effect that in 1929 stock prices did not reach their peak in this country until some time after stock prices in Great Britain had started to decline. This finding is contradicted by two widely accepted British stock price series (The Bankers' Magazine and the London and Cambridge Economic Service), which show no substantial difference in the dates at which stock prices began their depression declines in the two countries. The Bankers' Magazine stock price series is plotted in Chart 3, along with a comprehensive index for this country. Both series reach their peak at about the same time. True, both the rise and the fall in stock prices were milder in Great Britain than in this country, but as Chart 4 reveals, this was also true of the movements of the index of production, which reflects changes in general economic activity.

These charts strongly suggest that fluctuations in stock market prices are closely related to changes in general economic conditions. Chart 5 gives further evidence on this point. It shows that changes in stock prices in this country have moved in rough correspondence with changes in national income.

B. Effect on the volume of market activity

While the capital gains tax may in some circumstances affect the volume of capital transactions, it is only one of many factors, and the available statistical evidence suggests that other factors are far more important. A very important factor in the volume of activity seems to be security prices.

For example, during the period 1924-1931 when the normal and surtax rates remained practically unchanged and long-term capital gains were subjected to a maximum tax of 12-1/2 percent, the number of shares traded on the New York Stock Exchange rose from 284 million in 1924 to 1,125 million in 1929 and declined to 577 million in 1931.

The net capital gains reported on tax returns fluctuated from a high of $4,862 million in 1928 to a low of $501 million in 1931. These fluctuations were obviously independent of the fixed capital gains tax rates which prevailed throughout the period. Similarly the volume of net capital gains reported on tax returns increased from an estimated $762 million in 1935 to $1,456 million in 1936 in harmony with a general rise in security prices and despite increases in the rates of tax. (See Chart 2).

C. Effects on defense financing

Some of the witnesses have stated that the capital gains tax has an adverse effect on defense financing, (1) because the capital gains tax, by depressing the market price for common stocks, leads to high yields with which the low yields on Government bonds must compete; (2) because it retards the sale of equities to secure funds to purchase defense bonds; and (3) because it makes people reluctant to invest in equities, thus increasing the Government's burden in financing defense industries.

The Treasury proposal that capital losses not be permitted as an offset to ordinary income would remove tendencies to realize capital losses and thus eliminate any depressing effect that sales to establish tax losses might have on the market. The second contention, that the capital gains tax interferes with defense financing by retarding the sale of equities for the purchase of defense bonds is invalid. Increases in funds in the hands of sellers would mean decreases in funds in the hands of purchasers. As for the third contention, any effect on the willingness of investors to purchase equity securities -- and we do not agree that there would be an adverse effect -- would not interfere with the defense effort. At a time like the present, there is no need for further investment in industries not engaged in the war effort. In the expansion of the war industries, on the other hand, the Government must, in any case, bear a large share of the cost because of the risks inherent in the war.

D. Effects on risk-capital

All taxes influence economic activity, and practically every tax affects the willingness of persons to invest their capital in hazardous enterprises. However, it would not be desirable for that reason to do without taxes, for the alternative, additional borrowing, would have worse effects. Accordingly the question is not whether taxing capital gains reduces the willingness to invest, but whether this effect is greater than is that of the taxes imposed on other income. The Treasury proposal is designed to assure that the effect of the capital gains tax on investment will not be greater than the effects of other income taxes. It grants special relief to persons deriving incomes from capital gains, providing a lower maximum rate on long-term capital gains than on other income and by providing for a five-year carry-forward of losses. The Treasury proposal on losses is more generous than H. R.6358, which would provide for only a two-year carry-forward.

3. BRITISH AND CANADIAN TREATMENT OF CAPITAL GAINS

The British include in regular income, and tax at the regular progressive rates, gains from transactions that are part of the taxpayer's trade or business. The exemption

of capital gains applies only to gains that arise from casual or isolated transactions. Many transactions that in this country would receive favorable capital gains tax treatment are subjected to the high British ordinary tax rates.

Transactions in assets that are not part of the taxpayer's trade or business are relatively less important in Great Britain and most European countries than in the United States, and hence give rise to less serious problems of accumulation of wealth without taxation.

The British and the Canadians, who follow the British law, have found it extremely difficult to draw the line between taxable and tax-exempt gains from transactions in assets. An examination of British cases illustrates this point. (See Exhibit 5).

A severe indictment of the British formula for the treatment of income from transactions in assets was made in the report of the 1920 Royal Commission. (See Exhibit 6).

Professor Robert Murray Haig of Columbia University, a leading authority in the field of taxation, who has made extensive studies on the spot of capital gains taxation in England and other European countries, in a series of articles on the taxation of capital gains, published in the Wall Street Journal in 1937, reached the following conclusions about the British treatment:

> "It has been shown: (1) that the exemption of capital gains in England is far more narrow than it is commonly conceived to be; (2) that the partial exemption of capital gains under their law involves drawing an arbitrary line between taxable and exempt transactions, with uncertain and inequitable results as between individuals in substantially similar circumstances; (3) that the British themselves are far from satisfied with their formula, a Royal Commission having gone so far as to declare that it 'cannot be justified'; (4) that the formula places a premium on the transformation of taxable income into exempt capital gains, a premium sufficiently substantial to give rise to tax avoidance and loss of

revenue in spite of England's superior administration and her higher degree of taxpayer co-operation; and (5) that the devices for tax avoidance cause investors to buy and sell securities at 'unnatural' times, with consequences for the market that may be expected to be accentuated under American conditions."

4. CONSIDERATIONS OF EQUITY

A. The taxation of gains at progressive rates

H. R. 6358 would completely abandon the principle of progressive taxation with respect to capital gains of individuals. Such gains would be taxed at a flat 10 percent rate at the same time that other income, under the Treasury's proposed rate schedule for the individual income tax, would be taxed at rates that might reach 90 percent. So great a discrimination in favor of capital gains is indefensible.

It has been maintained that the taxation of short-term capital gains at progressive rates is ineffective, because the higher income groups realize no short-term capital gains. The data for returns with net income summarized in Exhibit 4 refute this contention. In all three years for which data are given for returns with net income, there was concentrated in each income class between $5,000 and $1,000,000 a larger percentage of the short-term gains than of the aggregate net income. The income class from $100,000 to $1,000,000, for example, reported in 1938 only 2.5 percent of aggregate net income, but it reported 6.1 percent of net short-term capital gains and 27.3 percent of net long-term capital gains. The only exception was in the very highest income class, $1,000,000 and over, where the percentage of short-term capital gains in 1940 was the same as the percentage of net income, although considerably less in 1938 and 1939; this may be explained by the heavy concentration of net long-term capital gains in this highest income class. It is clear from this Exhibit that a relatively larger part of short-term capital gains than of ordinary income is taxed at progressive rates in the middle and higher brackets.

B. The distinction between short-term and long-term gains

Gains on assets held less than a year are as current as other types of income earned during the same period.

A large part of such short-term gains is derived from speculative activity. Speculation is a way of securing a living in whole or in part. This income should be treated exactly the same as the income of a merchant, a lawyer, or a wage earner. There is no justification for giving it the favored treatment that it would receive under H. R. 6358.

The objection has been raised to the Treasury's proposals that they discriminate against speculation which serves a useful economic function. The Treasury proposal would not discriminate against such income; it would merely subject such income to taxation at the same rates as apply to all other types of income.

The major reason for differentiating between long-term capital gains and short-term capital gains is that the former may accrue over a period of time, but are included in a single year's income for tax purposes. The concentration of the capital gain into the year of sale makes the tax higher than it would have been if the gain had been taxed as it accrued over the years. This is the reason for the special treatment of long-term capital gains under the present law and for the Treasury recommendation that long-term gains be cut in half before being included in taxable income or, at the option of the taxpayer, that the actual amount of long-term gain be subject to a flat rate tax of 30 percent.

There is, of course, no exact dividing line between long- and short-term gains. It is set at 18 months in the present law, and the Treasury recommends that this division be continued. Gains on assets held for 1 year, or less, raise no accrual problem and hence are clearly short-term gains; gains on assets held for exactly 2 years, or more, raise an accrual problem and hence are clearly long-term gains. The proposed 18 months dividing line approximates this division.

C. <u>The rate on long-term gains</u>

The present alternative flat rate of 15 percent on long-term capital gains of individuals was enacted in 1938

when surtax rates were much lower than they now are. Further increases in the surtax rates have been recommended by the Treasury. The tax on capital gains should increase along with the tax on other income. If an alternative rate of 15 percent was appropriate in 1938, it is far too low today. The Treasury recommends that the alternative effective rate be raised to 30 percent. This will bring the increase in tax on capital gains approximately in line with the increase in tax on other income.

D. The segregation of losses from other income

Both H. R. 6358 and the Treasury's recommendations would eliminate the present deductibility of long-term losses from other income -- H. R. 6358, entirely; the Treasury proposal, with respect to amounts in excess of $1,000. The reason for this suggested change is that the privilege of offsetting capital losses without limit against other income permits taxpayers to time the realization of losses to their maximum advantage. This is prejudicial to the revenue and disturbs the market by inducing tax sales.

In recent years, taxpayers have sold a substantial volume of assets resulting in long-term capital losses which, under the present law, were permitted to reduce taxable income from other sources. The statutory amounts of net long-term capital losses and gains for the period 1938-1940 are shown in Exhibit 7.

E. The carry-over of losses

H. R. 6358 would permit a two-year carry-over of losses; the Treasury proposal would permit a more liberal five-year carry-over of losses.

Since the recommendation that capital losses be disallowed as an offset to other income is made because it is possible for taxpayers to time capital losses to their maximum advantage, rather than because capital losses are not a proper deduction, it is desirable that the carry-over of losses be as generous as is administratively feasible.

Taxpayers may not be in a position to realize capital gains within a two-year period after having suffered a capital loss. By permitting a five-year carry-over the possibility of a complete disallowance of losses because there are no gains would be greatly minimized.

Available data on the carry-over of short-term losses under the law in effect since 1938 show that the unused short-term losses are largely concentrated in the net income classes under $25,000. This indicates that a strict limitation of the carry-over period would discriminate against the relatively lower income classes.

F. Capital gains arising from changes in the general price level

It is claimed that capital gains should be given special treatment because they may reflect a general rise in the prices of all assets and goods. The argument is that such capital gains do not increase the value of any one taxpayer's assets relatively to the assets of another taxpayer, and hence do not increase his economic power or tax paying ability relatively to those of other taxpayers with substantial amounts of property.

The problem raised by general price changes is not restricted to the tax treatment of capital gains and losses. General price changes also increase or decrease other kinds of income and consequently the tax with respect to them without there having been realized a corresponding increase in economic power. Business profits and losses are often largely a reflection of changes in the general price level. Even wage increases which, due to fixed personal exemption and progressive rates, are subjected to higher effective rates of tax may not represent any increase in tax paying ability because increases in the cost of living are equal or greater. If we were to adjust our tax laws to meet the problem for that fraction of capital gains and losses due to general price change, we should be obliged in justice to meet it for the other forms of income and loss also.

5. SUMMARY

The Treasury's analysis leads to the following conclusions:

1. The enactment of H. R. 6358 would result in a loss in revenue and would facilitate tax avoidance.

2. The Treasury proposal would eliminate as effectively as H. R. 6358 any prolongation of declines in security prices due to taxation, since both proposals segregate capital losses and provide for a carry-over of such losses.

3. Factors other than the capital gains tax are the major determinants of the volume of market activity.

4. There is no basis for the claim that the capital gains tax interferes with the defense effort.

5. Great Britain and Canada do not completely exempt capital gains and losses from taxation; their procedure cannot be recommended for this country.

6. The taxation of capital gains at a 10 percent rate cannot be justified when other income is to be taxed at rates up to 90 percent.

7. Short-term capital gains do not differ from ordinary income in any respect entitling them to receive favored treatment.

8. Long-term capital gains require special treatment because they accrue over a period of years but are taxed in a single year.

Exhibit 1

Estimated total net capital gain of individuals and taxable fiduciaries filing Federal income tax returns, 1934-40 and stock prices

Calendar year	Estimated total net capital gain 1/ ($1,000,000)	Stock price index 2/ (1935-1939 = 100)
1934	340	76.6
1935	762	82.9
1936	1,456	117.5
1937	661	117.5
1938	817	88.2
1939	643	94.2
1940	649	88.1

Treasury Department,
Division of Tax Research

March 25, 1942

1/ Representing estimated actual amounts before application of the statutory percentages, reported on all returns by individuals and taxable fiduciaries, including individual returns with no net income.

2/ Standard and Poor's index of 402 industrial, rail, and utility stocks.

Exhibit 2

Net short-term and actual net long-term capital gain of individuals and taxable fiduciaries, 1938-40 1/

(Amounts in millions of dollars)

Year	Net short-term capital gain	Actual net long-term capital gain (estimated)	Total actual net capital gain (estimated)
		Amounts	
1938	160	657	817
1939	175	468	643
1940 2/	123	526	649
		Percent	
1938	19.6	80.4	100.0
1939	27.2	72.8	100.0
1940	18.9	81.1	100.0

Treasury Department, Division of Tax Research March 26, 1942

1/ Actual net long-term capital gain before application of the statutory percentages estimated from statutory amounts reported in Statistics of Income. The returns covered include individual returns with no net income.

2/ Preliminary.

Exhibit 3

Stock prices, estimated net revenue from tax treatment of capital gains and losses of individuals and taxable fiduciaries, tax liability on other income, and total tax liability, 1926-1940 1/

Calendar years	Stock price index 2/ (1935-1939 =100	Estimated net revenue from capital gains and losses 4/	Estimated tax liability on other income 4/	Total tax liability 4/
		(In thousands of dollars)		
1926	105.6	225,485	506,990	732,475
1927	124.9	296,879	533,760	830,639
1928	158.3	576,001	588,253	1,164,254
1929	200.9	420,971	580,967	1,001,938
1930	158.2	-15,226	491,941	476,715
1931	99.5	-89,001	335,128	246,127
1932	51.2	-79,917	409,879	329,962
1933	67.0	16,167	357,953	374,120
1934	76.6	17,197	494,203	511,400
1935	82.9	85,257	572,182	657,439
1936	117.5	201,941	1,012,076	1,214,017
1937	117.5	58,188	1,083,381	1,141,569
1938	88.2	52,873	712,960	765,833
1939	94.2	26,995	901,699	928,694
1940 3/	88.1	12,868	1,481,271	1,494,139

Treasury Department
Division of Tax Research

March 26, 1942

1/ The estimates are restricted to returns with net income, including however in 1938-40 taxable deficit returns. Estimated net revenue from capital gains and losses is the difference between a) total tax liability under the provisions of the particular revenue act applicable to each specified income year and b) estimated tax liability on other income if capital gains and losses had been entirely excluded from the tax computation.

2/ Standard and Poor's index of 402 industrial, rail, and utility stocks.

3/ Preliminary.

4/ Division of Research and Statistics.

Exhibit 4

Percent distribution by net income classes of a) net income, b) net short-term capital gain, and c) statutory net long-term capital gain of individuals and taxable fiduciaries with net income, 1938-1940

Net income classes (In thousands of dollars)	Net income	Net short-term capital gain 1/	Net long-term capital gain 2/
	1938		
Under 5	64.0	33.0	13.0
5 " 25	25.6	44.2	20.6
25 " 50	4.7	11.0	8.9
50 " 100	2.6	5.6	8.3
100 " 1,000	2.5	6.1	27.3
1,000 and over	.6	.1	21.9
All returns with net income	100.0	100.0	100.0
	1939		
Under 5	65.6	31.5	21.4
5 " 25	24.4	46.3	33.1
25 " 50	4.7	11.6	12.4
50 " 100	2.7	5.9	9.4
100 " 1,000	2.3	4.6	17.4
1,000 and over	.3	.1	6.3
All returns with net income	100.0	100.0	100.0
	1940 (Preliminary)		
Under 5	75.4	34.7	19.2
5 " 25	17.2	45.2	29.8
25 " 50	3.4	10.2	10.8
50 " 100	1.9	4.9	9.6
100 " 1,000	1.8	4.7	25.6
1,000 and over	.3	.3	5.0
All returns with net income	100.0	100.0	100.0

Treasury Department, Division of Tax Research March 26, 1942

Source: Compiled from data in Statistics of Income.

1/ Assets held 18 months or less. In 1939 and 1940 prior year net loss was deducted in computing net short-term capital gain.

2/ Assets held over 18 months.

Exhibit 5

Treatment of capital gains and losses under the British and Canadian income tax

The Canadian income tax law is based upon the concept of income as developed by English common law. In general, in both Great Britain and Canada gains are included in taxable income only if the taxpayer is held to be carrying on a trade. Gains from casual or isolated transactions are not taxable. The following cases, cited in the Canadian Tax Service of Commerce Clearing House, Inc., illustrate the distinction attempted. The cases also illustrate the great practical difficulties encountered in drawing the distinction between taxable and tax-exempt transactions.

1. Leeming v. Jones, 1930 A. C. 415. The House of Lords held that four persons who formed a syndicate for the purpose of buying two rubber plantations were not taxable on the profit derived from their subsequent sale to a company which was to develop them. The basis of the decision was a finding of fact that there was no scheme of profit-making by means of buying and selling properties; this was an isolated transaction and there was no evidence to establish the contention of the Crown that the four men were engaged in carrying on a trade.

2. Tebrau (Johore) Rubber Syndicate Ltd. v. Farmer, 5 T. C. 658 (Contrast Californian Copper Syndicate case). The profit realized from the sale of a rubber plantation was held to be a capital item when it was clearly shown that the taxpayer was not in the business of buying and selling rubber properties but had acquired this particular plantation for the purpose of using it in its business of producing rubber.

3. Californian Copper Syndicate Ltd. v. Harris, 41 So. L. R. 691 5 T. C. 159. This company was formed in 1901 for the purpose of acquiring mines, and in particular certain specified mines in California, with powers inter alia to sell the whole or part of the undertaking and to promote a company for acquiring from it the whole or part of the undertaking. In 1902 it sold part of its undertaking, and then in 1903 sold the balance. A profit was made on the whole deal. Held -- that the surplus so realized was profit of the company since it was made in the course of business.

Exhibit 6

Statement of the British Royal Commission on the Income Tax (1920) with respect to the treatment of capital gains and losses

"86. There are many categories of transactions the profits arising from which seem, to the ordinary mind, eminently proper subjects for Income Tax, although they are not at present charged because it cannot be successfully asserted that they are 'annual profits.' There are cases where a person may deliberately set out to make a profit, may quite properly treat his profit as income and spend it as income, his taxable capacity may be undoubtedly greater because of the result of his venture: his gains may even be the reward of services rendered, but yet his profits may entirely escape Income Tax under the present law."

"88. Several witnesses have called our attention to the possibility and the desirability of increasing the revenue by widening the doors of the tax so as to admit profits which at present are not regarded as assessable income. We are satisfied that the narrow scope of the existing charge cannot be justified and should be enlarged. We feel very strongly that at a time like the present, when taxation is necessarily high, to allow whole classes of sometimes highly profitable transactions to lie outside the range of the Income Tax, on the narrow technical ground that the resulting profits are not of a recurring character, should no longer be permitted, and we have been made aware that the existence of this exemption is felt to be a real grievance by other taxpayers whose profits are taxed to the full....."

"90. In general we consider that such powers should be given by law as would enable the taxing authorities to deal with any cases of casual or nonrecurring profits arising from a transaction that is prima facie a profit-seeking business transaction, since on the score of equity practically nothing can be said for the present exemption of these profits. Profits that arise from ordinary changes of investments should normally remain outside the scope of the tax, but they should nevertheless be charged if and when they constitute a regular source of profit.

"91. We are of opinion that any profit made on a transaction recognizable as a business transaction, i.e., a transaction in which the subject matter was acquired with a view to profit-seeking, should be brought within the scope of the Income Tax, and should not be treated as an accretion of capital simply because the transaction lies outside the range of the taxpayer's ordinary business, or because the opportunities of making such profits are not likely, in the nature of things, to occur regularly or at short intervals. Any such chargeability should of course extend to the profits of joint ventures. We further consider that profit arising by way of remuneration or consideration for services rendered or to be rendered should be made liable in all cases, and employers and other persons should be required to make a return of any such payments."

Exhibit 6

(continued - 2)

"94. There remains the question of the treatment of losses incurred in that class of enterprises which, when they result in profit, we consider should be brought within the area of taxation. In countries where profits of this nature are taxed, allowance (if any) for losses is generally granted only against profits of the same character. For example, a loss of this description incurred by a salaried person is not set off against the assessment on his salary. So long as it is provided that the loss can be set off against profits arising from similar sources, there is, we think, sufficient reason for this limitation; we consider, for example, that losses from speculation in investments should not be set off against ordinary trading profits, salary, or dividends, but only against subsequent profits from such speculation. When we come to deal with the basis for assessing profits under Schedule D it will be found that we suggest the carrying forward of a trading loss for a period of six years. As any casual profits of the kind we are considering will fall to be assessed under Schedule D, that recommendation as to the period for carrying forward losses will naturally apply to these cases."

Source: Report of the Royal Commission on the Income Tax, 1920, pages 19-21.

Exhibit 7

Statutory net long-term capital gain and loss on returns of individuals and taxable fiduciaries, 1938-40 1/

(In millions of dollars)

Calendar year	All returns			Returns with net income		
	Net long-term capital gain	Net long-term capital loss	Balance	Net long-term capital gain	Net long-term capital loss	Balance
1938	331	588	-257	325	396	-71
1939	236	468	-232	230	317	-87
1940 2/	265	545	-280	261	389	-128
Aggregate 1938-40	832	1,601	-769	815	1,102	-287
Average 1938-40	277	533	-256	271	367	-96

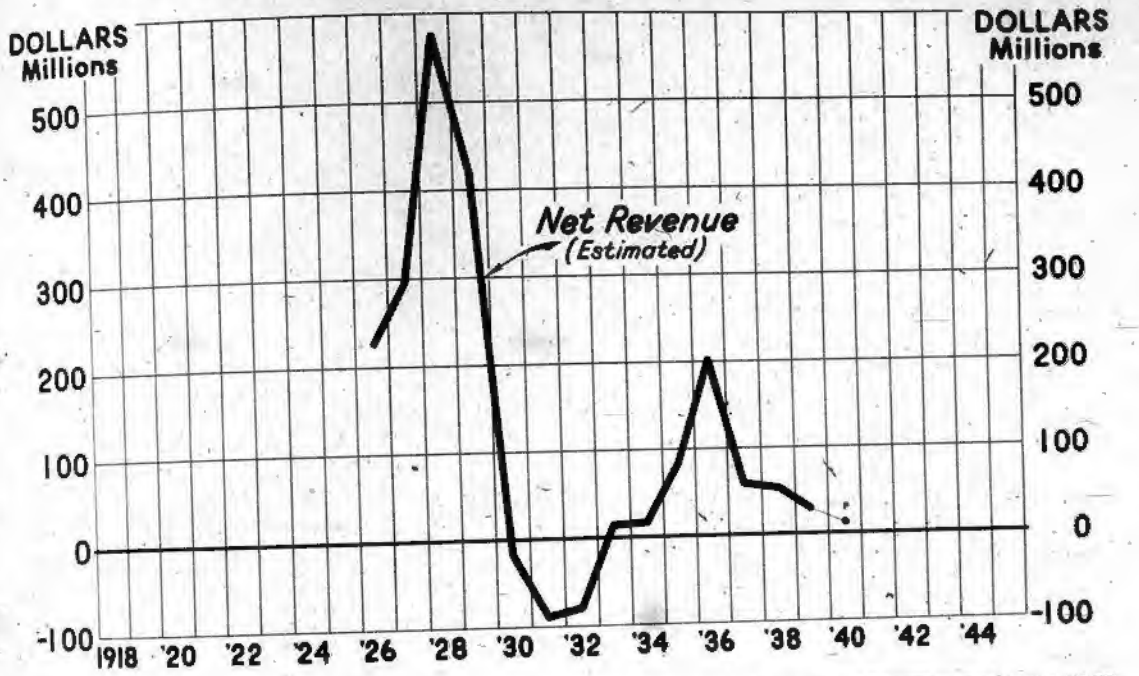
Treasury Department, Division of Tax Research

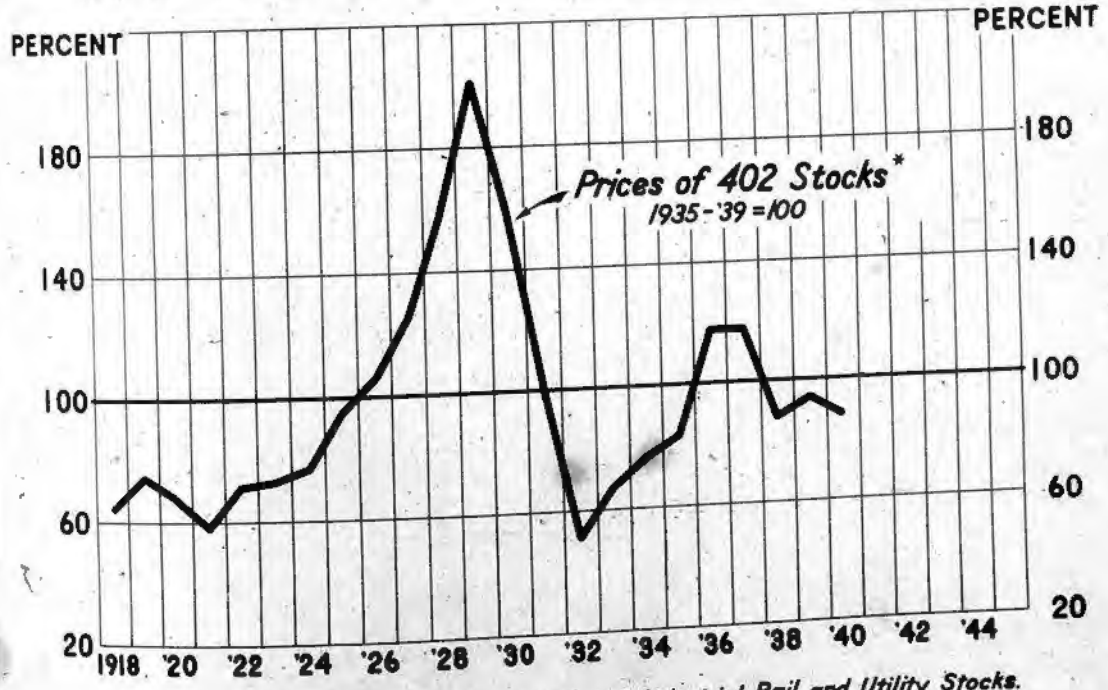
February 10, 1942

Source: Statistics of Income.

1/ Statutory amounts
2/ Preliminary.

NET REVENUE FROM CAPITAL GAINS TAX AND STOCK PRICES, YEARLY 1918-1940





*Standard and Poor's Index of 402 Industrial Rail and Utility Stocks.

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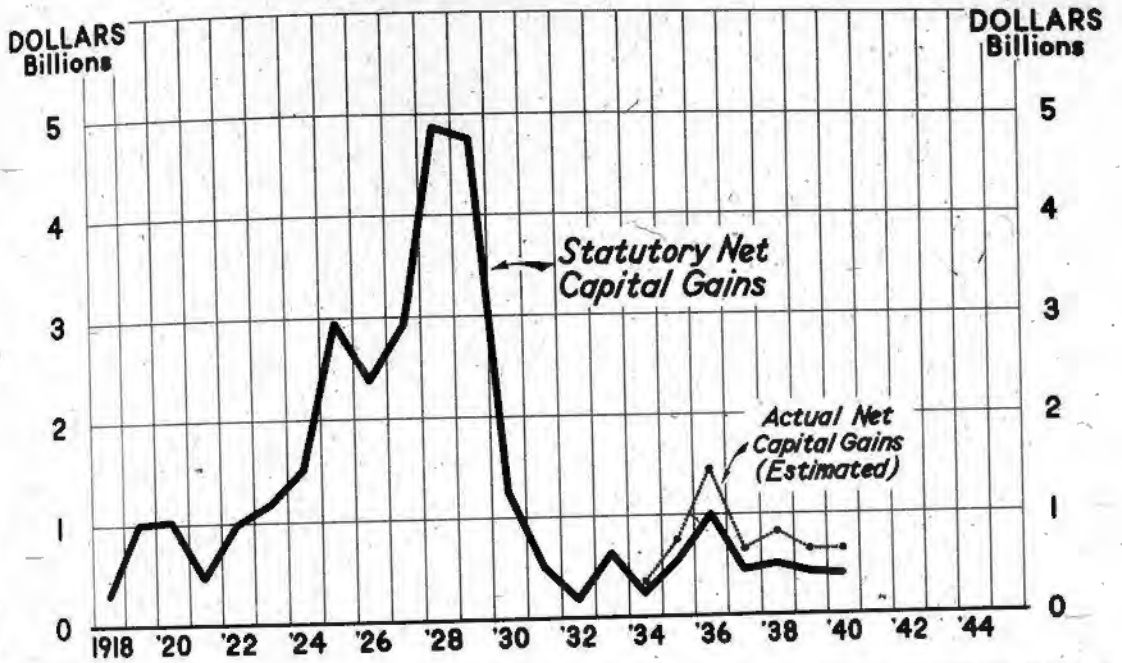
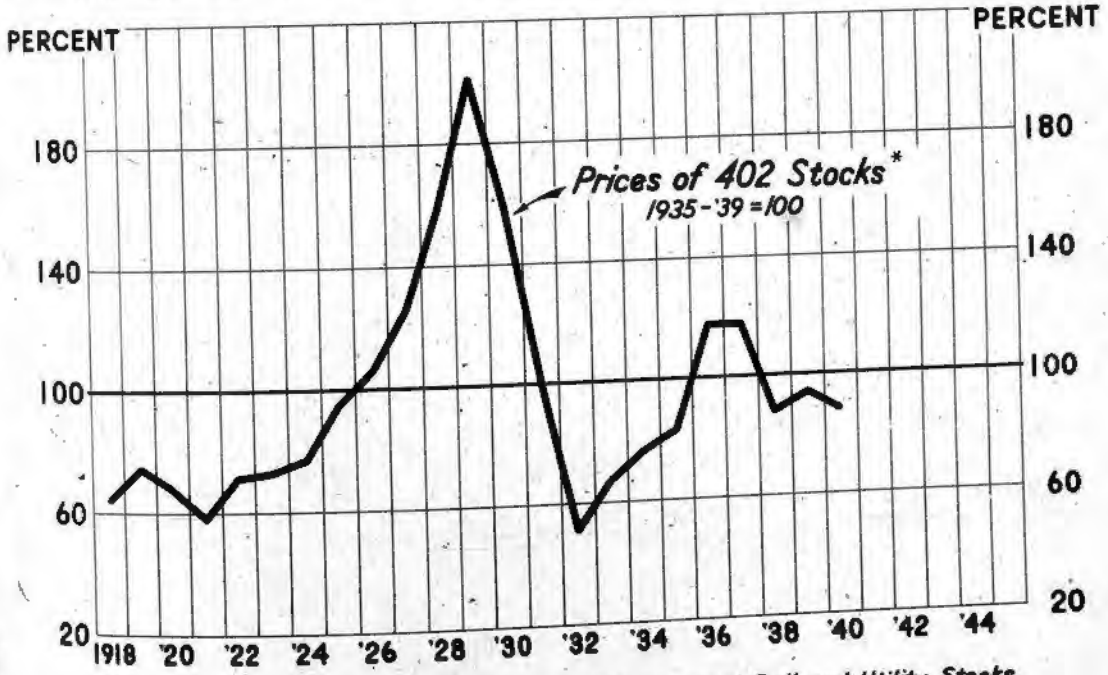
STATUTORY NET CAPITAL GAIN AND STOCK PRICES, YEARLY 1918-1940





*Standard and Poor's Index of 402 Industrial Rail and Utility Stocks.

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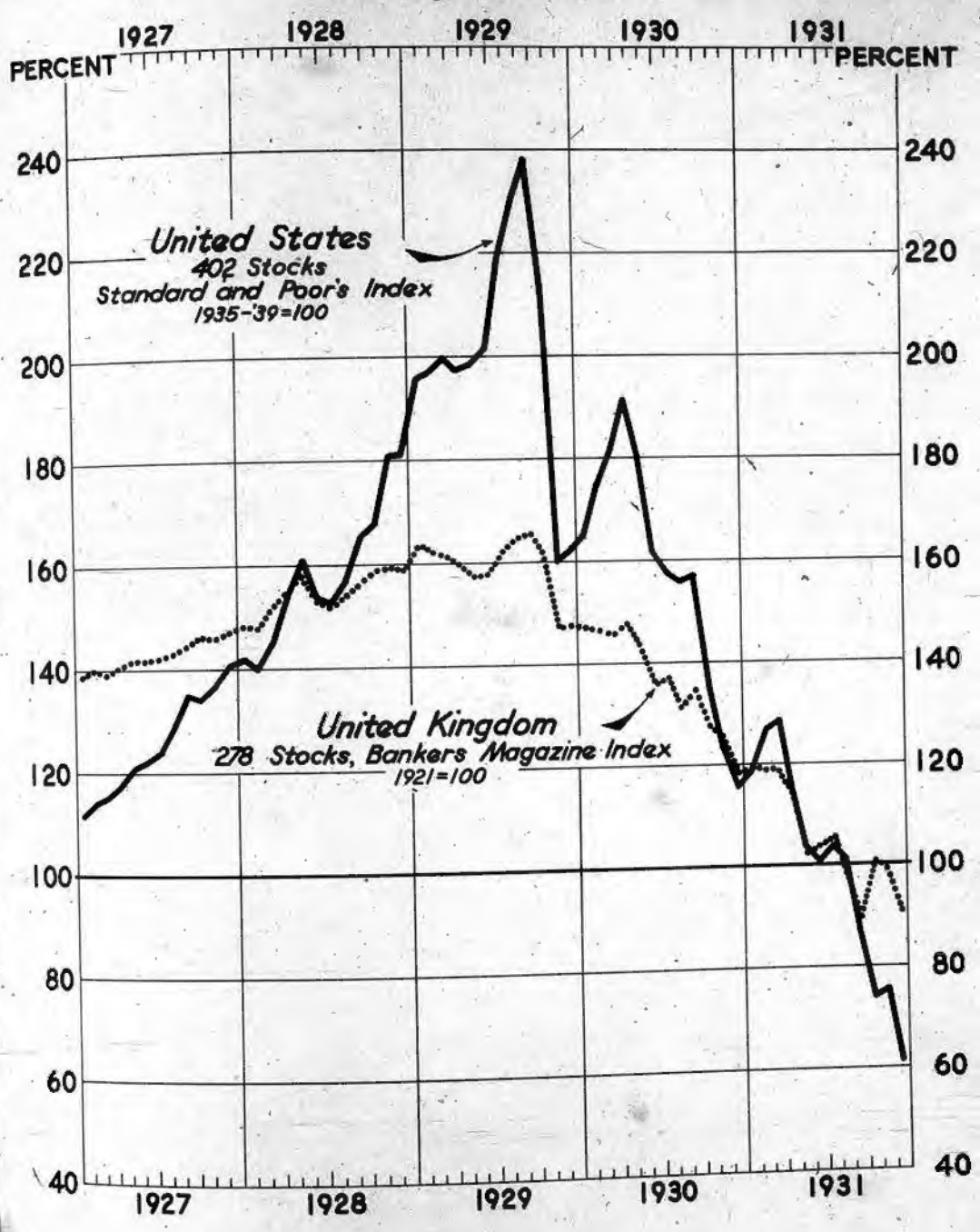
INDEX OF STOCK PRICES, U.S. AND U.K.

Monthly, 1927 - 1931



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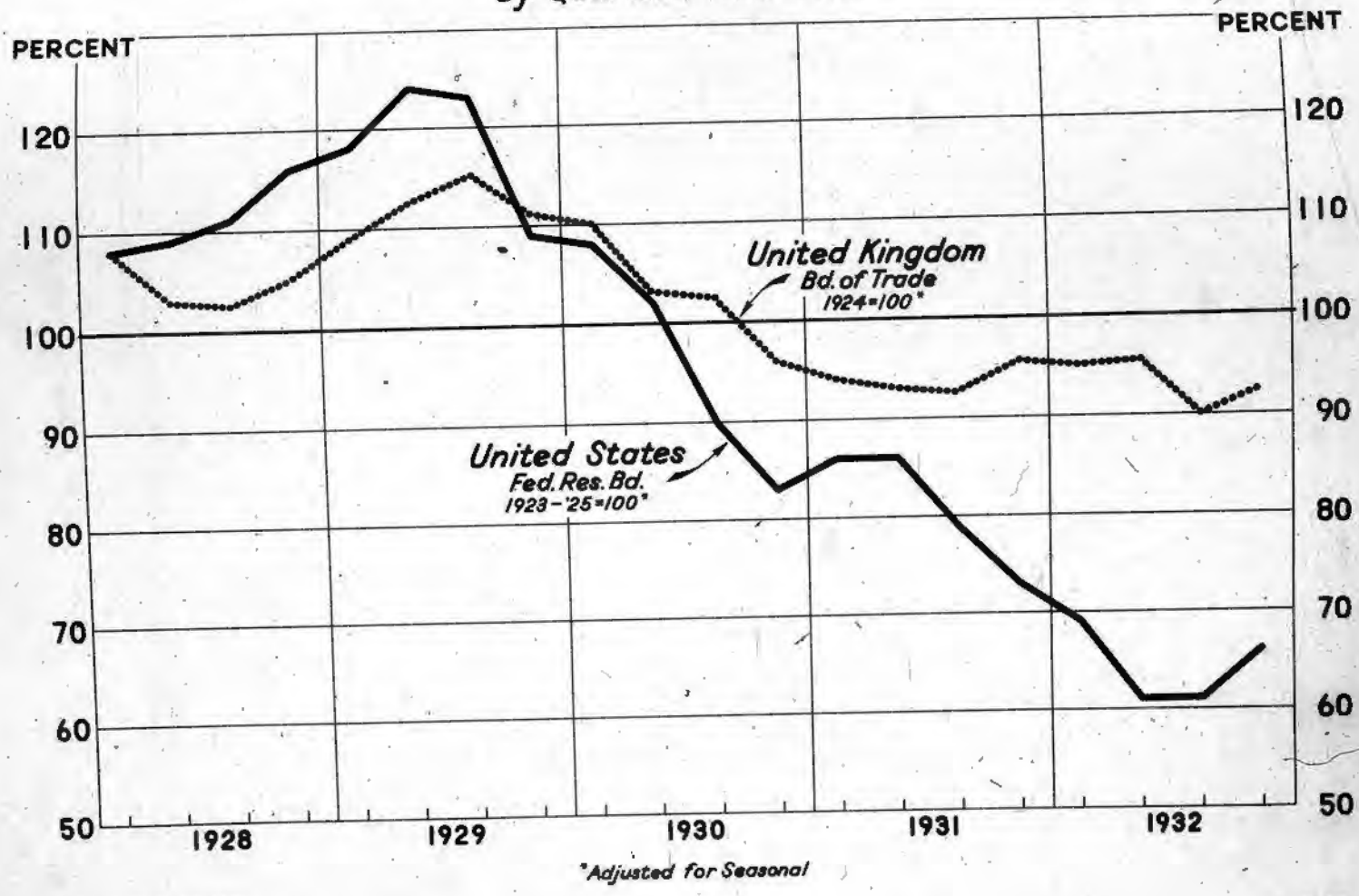
INDEX OF PRODUCTION U.S. AND U.K.

By Quarters, 1928-1932



*Adjusted for Seasonal

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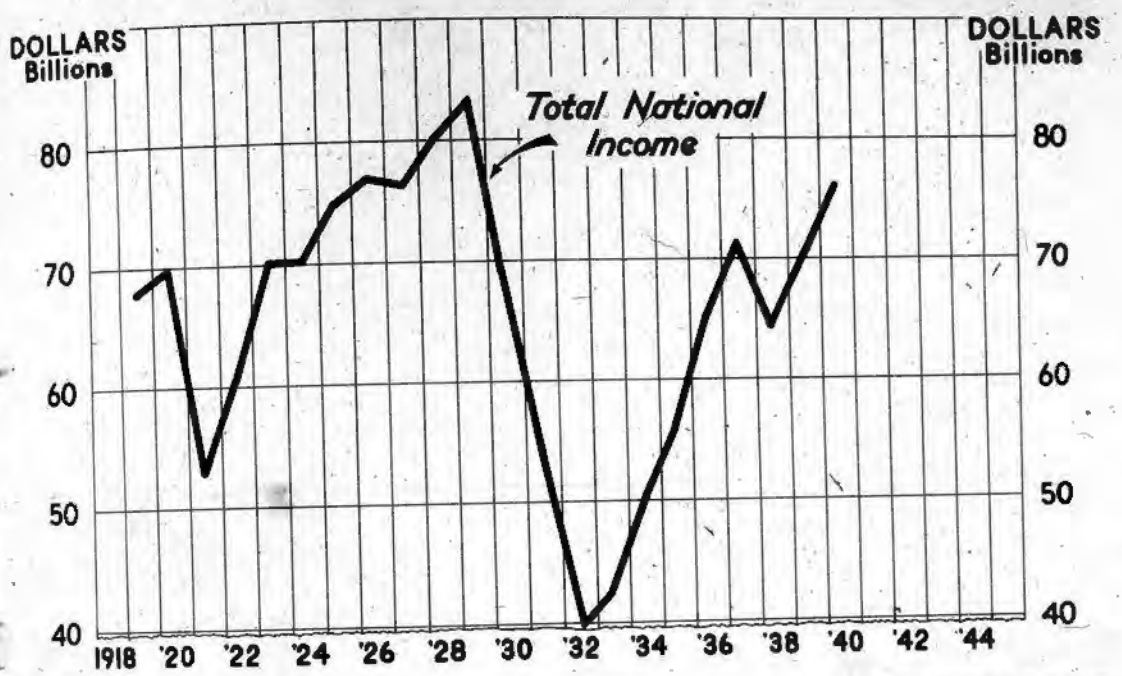
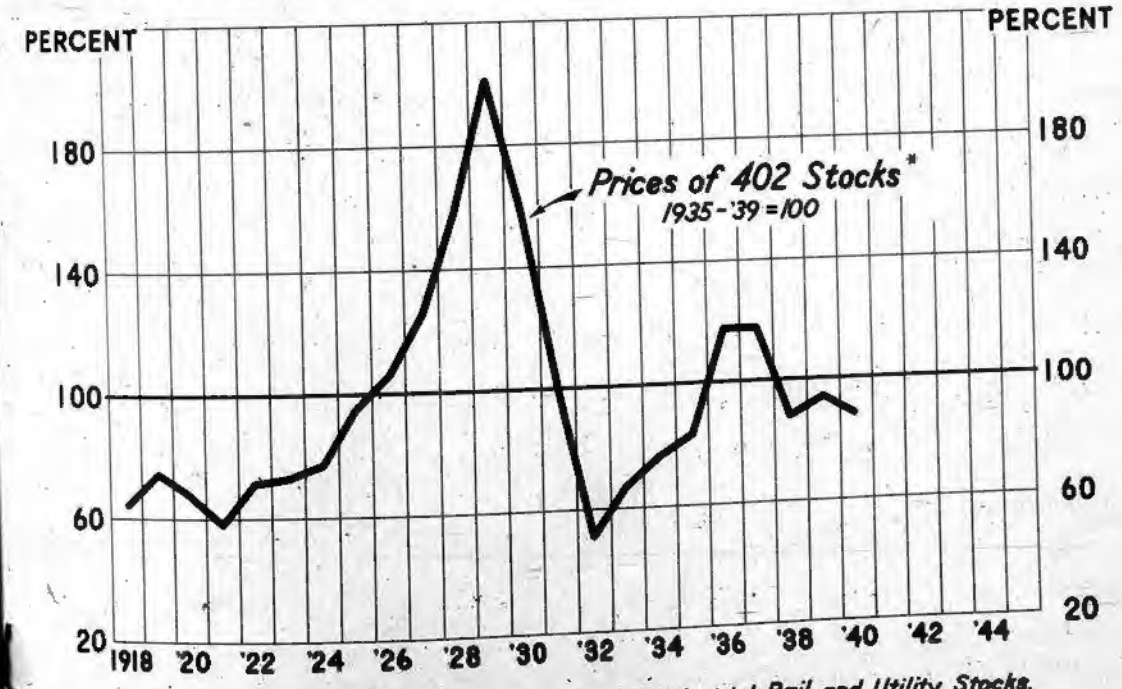
TOTAL NATIONAL INCOME AND STOCK PRICES, YEARLY 1918-1940





*Standard and Poor's Index of 402 Industrial Rail and Utility Stocks.

Office of the Secretary of the Treasury
Division of Tax Research

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Statement of Randolph E. Paul, Tax Adviser
to the Secretary of the Treasury,
Before the Ways and Means Committee of the
House of Representatives on Mandatory Joint Returns

March 30, 1942

MANDATORY JOINT RETURNS

The question of requiring husband and wife who are living together to file a joint return and compute the tax upon their combined net incomes has been fully debated over the past year. The Treasury Department has given careful study to all aspects of this question. It has reached the conclusion that a mandatory joint return provision, applicable to all income of husband and wife who are living together, should be enacted into law.

OTHER MATTERS PERTAINING TO FAMILY INCOME

In connection with our study of the taxation of family income, we have re-examined carefully the entire problem of the exemptions and credits allowed under the income tax for the purpose of taking into account the family status. In view of the increases in tax rates which the present situation has necessitated, we feel that in some respects these exemptions and credits are now inadequate. We therefore suggest to the Committee that to achieve a more equitable distribution of the tax burden, it would be desirable to enact the following changes:

1. Medical Expenses--A deduction should be allowed for extraordinary medical expenses that are in excess of a specified percentage of the family's net income. The amount allowed under such a deduction should, however, be limited to some specified maximum amount.

2. Credit for Dependent Children--The credit for dependent children should be revised to allow a credit for children between the ages of 18 and 21 who are in attendance at school.

3. Additional Credit Where Wife Earns Income--Where the wife works outside the home, additional household expenses usually are incurred which are not present where

the wife is able to devote her full time to the maintenance of the home. For this reason, it is suggested that an additional credit be provided as follows:

> There should be allowed as a credit against the tax upon the family an amount equal to 10 percent of the wife's earnings. Such credit, however, should not exceed $100.
>
> A similar credit should be allowed where a person occupying the status of head of the family, such as a widow, works.

-oOo-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM George Buffington GB.

In accordance with your suggestion, I interviewed company officials last week at the Federal Reserve Banks in the following cities:

Boston, Massachusetts
Detroit, Michigan
Cleveland, Ohio

Mr. Abbot Mills accompanied me to Boston and was present at the interviews there. He then went to St. Louis alone to conduct similar discussions in order to make the findings in all four districts available to you promptly.

There is being prepared a detailed account of the findings in each of the four cities. Without exception, corporation officials are ready and anxious to cooperate with the program to finance the war.

In many instances the industrial companies holding idle cash balances have large war contracts and it is expected much of these funds will be required for working capital. Generally, insurance companies and other financial institutions, other than banks which were not interviewed, regard the tap issues as suitable media for investment. Life insurance companies are striving to earn the 3% guarantee to policyholders but there appears to be room in most portfolios for expansion in holdings of Government securities.

With one exception, the people interviewed in Boston expressed the hope that some means could be devised to eliminate the necessity of padding subscriptions for Government issues. Finance committees are being asked to approve excessive subscriptions to secure required allotments. They all realize these commitments may become hazardous.

The automobile industry in Detroit has some idle cash but defense contracts appear likely to absorb much of these funds after July 1, 1942. A substantial part of their inventory in process is frozen. The companies interviewed regard stocks of new cars in dealers hands as a contingent liability. Final liquidation of new cars will ease the situation however. As an

offset, there is a lag of thirty days or more in payments received from the Government on some contracts whereas automobile manufacturers have been accustomed to receiving payment in cash for new cars sold.

The situation in Cleveland seems to be much tighter than in any of the other cities visited. Most of the companies interviewed have war contracts and a number of them are borrowing at present or will require bank loans in the future. Several of the steel companies in the Ohio district will require additional blast furnace capacity this year.

While it may be early to determine the effectiveness of the payroll savings plan, several people interviewed expressed disappointment in the results to date. It appears that much of the idle funds estimated to be available in certain industries is being absorbed by higher taxes and higher labor costs. The opinion was expressed that if earnings of these companies are to be recaptured by the Government to finance the war effort, a more intensive drive will be required to increase payroll savings.

MEMORANDUM FOR THE SECRETARY.

March 30, 1942.

Mail Report

General tax letters still lead in the number of those received, commenting on matters of current interest. The ratio advocating the sales tax is 30, as against 13 protesting it. The ratio in favor of a withholding tax is 5 for it, and 2 against.

Anti-labor letters of various types including - tax the Unions, no strikes, etc. - are in the ratio of 12, as against 6 on the subject of economy. The latter, however, are the most violent in anti-Administration feeling of any that we receive.

There were 4 letters from small income taxpayers thanking the Secretary for his statement in regard to lower bracket taxation.

6 letters and a number of statements signed by telephone employees in regard to taxation on pensions.

There were 4 letters of protest against joint returns, and 1 favoring the Administration's stand on this matter.

There were 5 protests against the advantage being taken by small loan companies of the need to pay income taxes. There were 3 complaints from men who had endeavored to use Tax Anticipation Notes in connection with income tax payments for their wives, and several complaints of the cumbersome method of crediting these Notes, and requests for simplification.

H. E. Yoxburn

The form letter asking whether buyers of Bonds would increase their holdings if the limit on Series F and G were raised, brought in a great flood of replies. In almost all cases, this was hailed as a progressive move. Summaries of the returns are doubtless being made in the proper office, but the following quotations may be of interest:

B. N. Carvalho, President, Metropolitan Fire Reassurance Co., Hartford, Conn. * * * This Company would be very interested in buying more than the $50,000 of these Bonds if the limit were raised. We would use as funds for such purchases, cash we have on hand which ordinarily we keep in specified amounts in protection of our statutory premium and loss reserves. Additional purchases of these Bonds would, in our opinion, not only further strengthen our Company, but would also be of great help in financing our country's all-out war program, which is what every one of us is thinking of at the moment.

Ellery L. Vogel, President, Springfield Five Cents Savings Bank, Springfield, Mass. * * * There is a possibility that this institution would be interested, provided we had idle balances, but the advertising from your office in the matter of selling Series E Bonds has been so effective that it has caused a considerable withdrawal of deposits from this bank, as well as from the other savings banks in this part of the country. We cannot seem to get over the idea that people should leave their money in their savings accounts because it is already invested in U. S. Bonds, and then proceed to buy their Defense Bonds out of current income. I feel that unless this trend can be turned, it will shortly become necessary for us to begin to liquidate our present U. S. holdings. * * * We have had a withdrawal of nearly $600,000 in deposits since the fifteenth of January.

Hilding N. Olson, Treasurer, Naugatuck Savings Bank, Naugatuck, Conn. * * * From an investor's viewpoint, we would be in favor of such action, although at the present time we have no idle balances due to abnormal withdrawals by our depositors for purchases of Defense Bonds and payment of income taxes. In order to increase our holdings, it would be necessary for us to liquidate some of our other investments.

Raymond H. Hoffman, Treasurer, Berger Brothers Company, Philadelphia, Pa. * * * We have often wondered why so much advertising was given these Bonds or any other Bonds, for that matter, on which nearly every broadcast asks the public to buy, and then limit them to the amount of purchase. In our minds, this is a mistake and the limit should be withdrawn. Yes, it will help us greatly if this limit is raised, and we will purchase additional bonds promptly, as we now have the money available. We are unable to buy our full line of material, and naturally the money accumulates in the bank, and there it will lie indefinitely unless we are allowed to purchase Government Bonds. * * *

Lawrence J. LaCourse, City Clerk, City of Wyandotte, Mich. * * * This letter arrived at a time when I was very much discouraged as to the promotion of any more purchases of these Bonds, and I shall state my reasons for this attitude. On December 24, 1941, I wrote the U. S. Treasury Department, Division of Loans and Currency, relative to Bonds dated May 1, 1941, and up until December, we had received no interest on same. January 22, 1942, an answer was received from Mr. Wesley, Chief of Division of Loans and Currency, stating that before any consideration could be given to the payment of interest, we must furnish information as to the source of the funds used for the purchase of the Bonds referred to. On January 26, we informed Mr. Wesley that in purchasing these Bonds we wished to be patriotic and at the same time keep our investments up, and we sold other Bonds owned by the city, and with these funds purchased Government Bonds. On February 28 we received another letter from Mr. Wesley, which I quote: "We have your letter of January 26, 1942. * * * We shall reply fully to this letter as soon as the increasing volume of our work permits." I should like to ask if there is any reason why we cannot be told why we are not receiving interest on our Series "G" Bonds, which have been past due since last November. And, how can anyone be expected to recommend to the governing body of the city, or to any governing body, the purchase of any of this type of Bonds for investment in city funds, when we cannot get any answer from the Treasury Dept. as to why we are not receiving the interest due. * * * I am Chairman for the State of Michigan of the Municipal Finance Officers' Assn., and I have recently made no recommendations in answer to inquiries from other members relative to the purchase of these Bonds for their respective sinking funds. Neither have I reported the particular treatment which we have received. * * *

Mrs. J. O. Moore, Boston, Mass. * * * For Government Defense Bonds, the $50,000 for 1942 is my limit as I see it at present. We deeply appreciate the Government's faithful, strong service at Washington.

Richard D. Lee, Treasurer, The Danvers Savings Bank, Danvers, Mass. This Bank should not buy more of either F or G Bonds as it is paying its depositors 3%. Many of these are elderly people, solely dependent upon the small income received. If we should be obliged to buy more of either issue, it would be by liquidating present investments that are yielding a more satisfactory rate.

Frank D. Littlefield, President, Eliot Savings Bank, Boston, Mass. * * * It does not appear likely, at this point, that we would be interested in an extension of such annual purchase until the extent of the continued substantial withdrawals by our depositors, ostensibly for the purchase of Defense Bonds, was more clearly defined. The eventuality of continued heavy withdrawals would be the liquidation of our most readily marketable securities. If there was a surcease of the withdrawal demand, we would feel free, and would be glad to increase our purchases of Series G Defense Bonds.

M. G. Kuhel, Supreme Treasurer, Slovene National Benefit Society, Chicago, Ill. Our Society has been wishing for some time that the present limit of $50,000, which may be invested annually in Series F and G United States Defense Bonds, would be raised to some higher figure. * * * We realize to the fullest extent that the Defense Bonds not only offer an opportunity for the U. S. to crush forever the enemies of democracy, decency and the four freedoms so ably proclaimed in the Atlantic Charter by our President and Commander-in-chief, but also an opportunity for the finest and safest investment in the world. Therefore we trust that the Government will raise the present limit to a much higher figure.

Frank N. Hickey, Chicago, Ill. When I have finished paying my '42 taxes, I will not have even these bonds!

Henry D. Sharpe, Providence, R.I. * * * I cannot figure as to how much income I may have during the remaining months of the year, and the year just ahead, because the business interest in which I am acutely interested, and which is making a pronounced contribution to national defense, is continually threatened not only by the uncertainties of increasing tax legislation, not to be resolved probably until midsummer, but also by legislation and administrative action which are serious threats to the conduct of any industrial business. Frankly, I am unable to make any commitments to purchase U. S. Bonds of any sort until serious threats to existing organized business are better resolved. The uncertainties of the complicated administrative effort, agitating the industrial workers to squeeze the employers more and more, and, on the other side, the effort of the WPB to commit our company to give more and more performance to the furtherance of the war effort, produce trying situations for our business, as well as for countless others. It is to be hoped that a changing attitude and unification of government effort can be secured readily. The achievement of such an effort would, I believe, go a long way toward settling the perplexities of thousands of American business men who are ordinarily willing to buy government securities.

H. A. Hilsinger, Treasurer, The Savings Bank of Utica, Utica, N. Y. * * * I have the thought that the present limit applied to a six months' period, instead of any one year, might have a special appeal to those accustomed to semi-annual balance periods, and the closer study of its condition at those periods. It might further establish the habit of systematic buying with a definite plan of serial maturities in mind. I am mindful that the same can be accomplished by the annual limit, but a habit is established by the frequencies of repetition.

Alfred H. Hastings, President, Springfield Institution for Savings, Springfield, Mass. * * *May I take this occasion to comment that the more recent advertising material on the subject of purchasing Series E Bonds from current income, rather than past accumulations of capital or savings, appears from the experience of this bank to be having the desired effect. * * * We sincerely urge that the Treasury continue to stress the purchase from current income, and we will continue our local advertising on the same subject.

R. A. Collins, Assistant Vice President, The First National Bank, Chicago, Ill. * * * I am sure that these religious, educational and charitable institutions and trusts would be interested in a Government Bond with a longer maturity and a somewhat higher return, on which the penalty for redemption could be made much greater than that now imposed on the redemption of Series G Bonds. In order to make such an issue attractive to trustees, there should be a provision that if the trust is terminated by death, the Bonds would be in the several following months redeemable at par, and interest on the Bonds should be paid semi-annually. We are in such close contact with the institutional funds referred to in this letter that we believe we can speak with full assurance as to the reaction of these institutions to increasing their holdings of Government Bonds at a somewhat better return than prevailing rates.* * *

Lammot DuP. Copeland, Wilmington, Del. * * * The uncertainty that will exist until the passage of the 1942 Revenue Act precludes the possibility of any budgeting of cash requirements. Consequently, I cannot commit myself as to whether or not I would be able to purchase additional savings bonds. However, in principle, I would favor the raising of the limit and might be able to take advantage of it. * * *

H. A. Wallace, President & Gen. Manager, United Fuel Gas Co., Charleston, W.Va. * * * In my purchase of Bonds, I have endeavored to purchase Bonds which I thought the Government would desire; that is, the F Bonds, principally, as F. Bonds allow the Government the full use of all capital during the 12-year period, but I am perfectly satisfied and willing to purchase any bond that our Government issues, regardless of the interest involved, that my limited capital will allow me.

General Comments

J. D. Brock, Winston Salem, N.C. We Americans respect your ability and integrity. We feel that our Treasury is in good hands. We believe you will do all in your power to control the waste and unessential spending now prevalent in Federal expenditures. Every dime spent should be ten cents directed toward "Licking the Axis".

F. B. Mundy, Winter Park, Fla. When you declared upon a memorable occasion that you knew nothing about the job you were undertaking, you were 100% correct, and have done nothing since to add to that record. (Complains re labor, rising prices, etc.) * * * Washington is a horrible mess and everybody knows it, and it is not only losing the war, but fostering disunity.

Francis S. Murphy, The Hartford Times, Hartford, Conn. I am enclosing a check for $100 which was handed to me by a man of little means who wanted the Government to have it. When I talked to him about it, I spoke about buying Defense Bonds, and he told me that he had some, but that he didn't want to buy Bonds, as that would be selfish from his standpoint, and he wanted to give this to the Government. We had a little story in our paper Saturday night which I am enclosing. This man, an Armenian, has been here a long time, and came over here when he was a small boy. He has been a citizen for many years. He wanted no publicity and he merely wanted to show his appreciation for the privilege of living in this country. I thought you would be interested, so here is the check and the story.

Silas Blake Axtell, N.Y.C. A few years ago, I had occasion to report to you under registered mail, some evidence that I had of bootlegging on a farm adjacent to mine in Orange County, N.Y. In spite of the fact that the place was raided by the Federal Government within 5 days thereafter, on the 4th day after my letter was sent out, somebody having an advanced tip, moved into this farm and pulled out the still and other equipment of the bootleggers -- so apparently no letter gets into your hands without its being opened by somebody else first. I hope this letter will reach you.* * *

E. M. Shepherd, Winston Salem, N.C. I wish to thank and commend you for the splendid work you are doing on the Joint Congressional Committee on Reduction of Nonessential Federal Expenditures. Regardless of the fact that our nation is facing the most critical situation in history, it is my honest opinion that our people can meet and overcome our existing problems if you and others representing us in Washington will continue to oppose all nonessential expenditures by our Government. * * *

A. J. Bannon, President, Texas State Association of Electrical Workers, Houston, Texas. The purpose of this letter is to briefly comment on the subversive tactics of some of the newspapers in Houston, and of some of the commentators, such as H. V. Kaltenborn, of the radio. Mr. Hobby and his wife, who dictate the policy of the Houston Post, are avowed, determined, and consistent Roosevelt-haters and labor-baiters. They have carefully designed a program in their newspaper and are inciting, dividing, and creating dissension among the people. This hysteria, developed by vicious editorial and misleading headlines condemning the New Deal and its agencies, and openly criticizing our Government officials in Washington, is very disloyal and extremely dangerous at this time. * * * The effects of this insidious campaign on labor will have a detrimental back-lash on our defense program. The working people feel, that without reason or justification they have been stabbed in the back while working hard, long hours, trying to do their part in our national defense program to supply their fellow-members and loved ones who are fighting the Axis Powers. * * * Congressmen and Senators are getting confused, doubtful, and fearful of the weapon that these institutions are being moulded into and how they are being misused against them.

Favorable Comments on Taxation

Harry C. Bates, Washington, D.C. I want to express to you my sincere appreciation for the fight you are making to have an equitable tax program adopted. Your courageous fight against a universal sales tax is gratifying to the vast majority of the American people for it shows your determination to spread the financial burdens of war among those who are best able to bear such burdens. We know that the sales tax is neither sound economically, nor just socially. I appreciate the fight you are making, but even more, the truly American spirit which prompts you to make it.

Charles Austin, Minister, The Church of All Nations and Neighborhood House, N.Y.C. May I commend you for the tax proposals which you have made for the year 1943. It seems to me to be both fair and wise. I am exceedingly disturbed about the numerous proposals made by the National Association of Manufacturers and other groups who would have Congress levy a sales tax and thereby reduce the taxes in the upper brackets. I want you to know that we are lending our support to the tax plan as presented by you, and will oppose any sales tax. It places an undue burden on those least able to pay it.

Unfavorable Comments on Taxation

Elmer Sumpter, Miami, Florida. I have just looked over your new tax proposals. Am I being taxed or sued? Once I was afraid of bankruptcy. Later I was afraid of inflation. Then I was afraid of war. But now I am afraid only of you. Looking over your proposals I do not find any clauses requiring me to send in a gallon of blood and all my back teeth. Is this an oversight? This is the most complete work of its kind since "Correct Scalping" by Sitting Bull, and "The Technique of Pelt and Skin Removing" by Buffalo Bill. Will you please arrange to take the rest of our money? No on the sales tax.

Minnie Brazil, Oilton, Okla. * * * Mr. Morgenthau, $80,000 may not look like much money to you when you are used to thinking in terms of billions, but it looks like a heck of a lot of money to us little people out here that think in terms of ten-cent Defense Stamps, so if its just the same to you, we would rather send that $80,000 to the Japs in the form of lead pellets that fit a machine gun. I don't believe the majority of the people need to be kidded into paying their taxes, and I don't believe Mr. Disney needs it as badly as it is needed elsewhere. We consider it almost an insult anyway for any one to think we have to be kidded into paying our taxes. * * *

H. D. Rumsey, Chicago, Ill. (Telegram) I respectfully call your attention to a Bill now being considered by the House Ways & Means Committee, at your suggestion, which intends to levy a heavy taxation on trust funds held by corporations. Such a tax imposed on the trust funds of The American Telephone and Telegraph Company would affect the future of nearly a million employees - with their families and dependents, a total of three or four million people. * * * Surely, Mr. Secretary, to rob the people of their only security after they have worked more than 30 years does not seem compatible with our American program for protecting the four freedoms at this crucial time. * * * Telephone communications are important in our war effort. To attack the security of Bell System employees may weaken home morale in a vital spot. * * *

Sidney W. Mayer, N.Y.C. I have just received about 25 tax notices from Miss E. B. Grant, who is absent from the city in search of employment, and as a sound-minded business man, thought it a good idea to send them to you -- the object being to bring to your attention the extravagance of your Department. You have expended, I estimate, over $100 in an effort to collect $1.94. Several calls have been made by your collectors, all to no avail. This amount is uncollectible at present. You have suggested almost everything possible in the way of taxation to raise a few additional dollars to meet present day expenses, then your Department wastes hundreds of dollars to collect a few cents. Now is there anything more inconsistent -- if so, please tell it to me.

J. W. Fullan, Elmwood Park, Ill., sends a copy of a telegram received by him and indicating the extent to which telephone companies are organizing against a proposed tax on pensions. We have had many letters, telegrams, and postal cards, but this is the only one that has quoted the request for protest. The telegram reads as follows: "Adoption of Secretary of the Treasury Morgenthau's proposal for tax on Pension Trust Funds means the end of the Bell System Pension Plan. This is the advice received by telephone today from Washington, D.C., by President Griffith from C. F. Craig, Vice President of the A.T. & T. Company, in charge of personnel. Company's position is that Morgenthau's proposals, as presently worded, include Bell System Pension Plan and will make the cost of maintaining the Pension Plan prohibitive. It is urgent that you immediately telegraph a sharp protest to all Congressmen and Senators from your area, and the Chairman of the House of Representatives, Ways and Means Committee. Please send copy of the letter or telegram to this office. This legislation is being considered now, and speed is imperative. Letter follows. Bert Horth, Secretary-Treasurer."
Editor's Note: The above telegram is self-explanatory. In addition to the Telephone Union's protest, we urge every member of the W.E.I.L.A. and their friends to petition the U.S. Senators and Congressmen from their Districts to delay any action on this important proposed legislation until all employees who are involved can be heard from.

Favorable Comments on Bonds

Miss Helen Alex, Madison, Wisconsin. There are many people in the same situation as I am - naturalized citizens with relatives and friends still in our native countries. We all do what we can - America first, of course, since this is our chosen country, but many of us would like to do something for our people in the conquered countries, and this thought occurs to me: Would it not be possible for us to buy Defense Bonds and have them put in a common fund to be used for rehabilitation after the war? * * * If such a fund could be ear-marked for use after the war, it seems to me that the naturalized citizenry would be doing a double service, to America now - and to the conquered countries later. * * *

Marshall W. Gelette, South Dartmouth, Mass. On Sunday morning, March first, Grantland W. Gelette, age five, attended church service with his father. On each preceding occasion he had placed the coin which had been given him in the collection box. This time, however, he withheld the money when the collector passed the box in front of him. His father, surprised, leaned over and whispered to him: "Why didn't you put your money in the collection, Grantland?" And the reply: "I have to buy 'fense stamps, daddy." So you can see, sir, that the sales campaign is really effective, and the younger generation is shouldering its part of the responsibility.

Unfavorable Comments on Bonds

J. Glenn Turner, Dallas, Texas. If Defense Bonds could be made legal tender for the payment of income taxes, I have no doubt that a great amount of the confusion now existing in the minds of the public would be done away with, and you would see the most spirited Defense Bond buying response on the part of the public generally. It is not that the people are not patriotic or that they are not in sympathy with the war effort, because I am certain that the people in this section of the country are one hundred per cent in accord, but they are uncertain as to the calls that are going to be made upon them financially and if a plan could be worked out whereby all Government Bonds purchased would be available as legal tender for the payment of U. S. income taxes, I, personally, believe it would be much better for the Government in its revenue raising program.

C. F. Murphy, Elkader, Iowa. I shall never buy any more tax anticipation certificates. I might have known when I bought them they would prove to be of no advantage. The ponderous machinery of the Federal Government is so organized, it impinges upon us everywhere we turn.

W. W. Gasser, Gary, Indiana. The writer has been asked a number of times why banks are not permitted to buy Defense Savings Bonds F and G the same as other corporations and institutions. The Government wants to sell the Bonds and I can see no good reason why banks should not be given the same privilege as other corporations. I am sure if banks could do so, they would buy their limit annually of these Bonds. * * * The sale of Defense Savings Bonds is costing the banks considerable expense, and considerable work is involved. Bank earnings are shrinking at an alarming rate and banks cannot afford to be called upon for too heavy a load, even though patriotic and willing to do everything within their power. * * * Banks were formerly permitted to buy U. S. Savings Bonds to the extent of $10,000 in any one calendar year, the same as other corporations, and I can see no reason why they should not be permitted to purchase these Bonds. * * * They now feel they have been discriminated against, and I would appreciate your consideration in lifting this discrimination. * * *

Elisabeth Christman, Sec'y.-Treas., National Women's Trade Union League of America, Washington, D. C. Three letters to the Press Section, Defense Savings Staff, asking that they do not send mats because we cannot use these in our mimeographed bulletin, have apparently been disregarded. I am not against this form of publicity - but against wasting Government material which we cannot make use of. Every time these mats go into the waste basket, I feel as if I am destroying the value of stamps and bonds. You will, I know, forgive my registering a complaint with you, but I feel it is the only way to stop wasting material. I assure you we are doing all we can to aid in the sale of stamps and bonds, which means helping the Government and saving for the future.

Robert Ferrandiz, Brooklyn, N.Y. There seems to be a variance of opinion regarding converting Defense Bonds into cash. Should it be necessary to convert some Defense Bonds into cash, will you kindly give me complete and specific instructions as to the proper method of doing it? Please do not refer me to the instructions on the back of the Bond since every person I have consulted seems to have different interpretations. In your answer, kindly refrain from using complicated legal terms. A simple, every day English explanation is the instruction I prefer. * * *

C. A. Burke, N.Y.C. Many corporations now have an employees' Defense Bond purchase plan. Money is collected each week and deposited in a special fund in a bank and held until each employee has enough in this fund to pay for the Bond desired. This money does not get to the Government for quite some time, in my own case, it is 15 weeks. Formerly, I made the purchases of stamps myself each week. May I suggest a Presidential Order, or similar decree, requiring that all such funds be turned into stamps within one week after the money has been deducted from the pay of the employee?

C. S. Landis, Wilmington, Delaware. * * * It is totally useless to propose to most persons that such payment for Defense Bonds for special purposes be made to the Treasury, and that such will then be set aside for use as the payee desires. We have had 9 years of PROOF that the present Administration is not only unwilling to conduct a practical

and sensible business administration of the country, and of the war effort, but there is proof that they are totally UNABLE to do so. Consequently, to get results, other means are required. Are you willing to make arrangement, through proper legal means, whereby prospective purchasers of Government Bonds may be permitted to make payment directly to the Treasurer of such companies as Boeing, Consolidated Aircraft, Douglas, United Aircraft, Curtiss-Wright, Chrysler, General Motors, Bethlehem Steel, United States Steel Co., or similar widely known and CAPABLE armament firms. I feel certain you would be astonished at the public response. Our main concern today is that there shall always be a UNITED STATES. The best way to insure this is to give the public an opportunity to invest where THEY believe it will bring the best results.

Stanley V. Houchins, Recording Secretary, United Automobile Workers of America, La Porte, Ind. I have been authorized by the employees of the Modine Mfg. Co., LaPorte, Indiana, to seek your advice and assistance in solving a problem of considerable importance. We, the employees, are organized 100% in the UAW and CIO. Early in February, we voted unanimously for a voluntary continuous 10% payroll deduction for the purchase of Defense Bonds. We immediately presented this request to the management and were told that the company could not comply with the request at that time. We have endeavored several times since to gain the cooperation of management in this matter without success. On Monday, March 23rd, we demanded a definite answer. The answer was an emphatic "No". This voluntary deduction was a sincere, patriotic gesture on our part, and we are very much concerned about the attitude of the company towards this and other matters relative to the war effort. Please advise us of any assistance you can render in the matter.

Paul Schleissner, Editor and Publisher, The Tobacco Record, Saugerties, N.Y. When one of your Defense Bonds and Stamps boosting plates arrived badly damaged, the enormous waste in your Department was forcibly brought to mind. * * * I receive letters of appreciation for publishing your advertising matter, and similar letters when I purchase Bonds; also circulars of all types. The magazine published by

your Department for general reader interest deserves praise as a specimen of the printer's and engraver's craftsmanship, but, a careful personal check-up reveals that it hasn't sold one additional Stamp. * * * There isn't a publisher in the country, I dare say, who would not continue to foster the sale of Bonds and Stamps if you requested it and explained that this was being done for the sake of economy. Please let me call your attention to the number of publications that have already been compelled to close. Were you to pay for your advertisements at space rates, you could have them all continued and the cost would not be greater than your promotional expense at present. * * *

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, Week ending March 28, 1942.

Summary

(1) Industrial production continues to rise as a result of further expansion in leading war industries. The automobile industry has made rapid progress in converting facilities to war production, and unemployment during the conversion period has been much less than earlier expected. The General Motors Corporation expects to be producing war materials at a rate of $1,000,000,000 yearly at the end of March, as compared with a rate of $630,000,000 at the end of December.

(2) Various indications suggest that a renewed upturn in prices of basic commodities is getting under way. Cotton prices (10-market average) have reached 20.2 cents a pound, the highest since 1928 or earlier. The BLS index of basic commodity prices last week rose moderately above recent highs, although nearly two-thirds of the 28 commodities are under controls.

(3) Farm income in February ran 40 percent above year-earlier levels, despite a somewhat greater than seasonal decline from January. This large increase is directly reflected in rural sales of general merchandise (Department of Commerce index), which in February stood 38 percent above the corresponding month in 1941.

(4) In comparison with the 40 percent gain in farm incomes, weekly earnings of factory workers in February are estimated to have been 24 percent above year-earlier levels. Taking into account the increase in workers employed, total factory payrolls in February showed a gain of 39 percent over the previous year and 80 percent since the beginning of the defense program in 1940.

(5) Department store sales have risen to the highest point since December, as pre-Easter buying has lent additional stimulus to trade. The sales gain over year-earlier levels during the week ended March 21 increased moderately to 26 percent.

- - - - - - -

Industrial production at new high

The FRB adjusted index of industrial production has been advancing steadily since last August, but actual output did not rise above last fall's peak until February, when the previous high was exceeded by a narrow margin. The adjusted index of 173 in February represents a gain of 54 percent since April 1940, shortly before the beginning of the defense program.

Further gains have occurred during the current month. Steel output in March has moved up to a record high, and the important industries comprising the transportation equipment group (including airoraft and shipbuilding) in the FRB index of industrial production are reported to have shown further gains.

Details of the rise in industrial production since last November, before the outbreak of war in the Pacific, show that the war industries -- represented in the FRB index largely by transportation equipment, machinery, and chemicals -- have made extensive gains. (See Chart 1.) On the other hand, capacity limitations and other factors have prevented any material increase in the seasonally-adjusted output of certain basic industries vital to the war effort, notably iron and steel and non-ferrous metals.

Automobile industry converting facilities rapidly

A feature of the recent war production effort has been the rapidity with which the automobile industry has been converting its production facilities to war work. Both labor and State Unemployment Insurance officials in the Detroit area indicated recently that unemployment due to automobile plant conversion has been considerably less than had been expected.

As an indication of the progress that has been made in converting production, the General Motors Corporation reported at the beginning of last week that 86 of the company's 90 factories were already producing war materials or were being re-arranged and re-tooled for war production. It was further stated that, by the end of this month, the Corporation will be producing war materials at an annual rate of $1,000,000,000, as compared with annual rates of $630,000,000 at the end of 1941 and only $226,000,000 in the first quarter of 1941. Some units of the automobile industry have made very rapid progress on war work. Thus the Buick division of General Motors recently reported that it was producing bomber engines at a rate originally planned for next December.

Commodity prices continue upward

Although the BLS all-commodity index has risen more gradually in recent weeks, partly because of a flattening out in prices of basic commodities, various indications suggest that a more rapid advance may be in prospect. The BLS price index of basic commodities last week again moved somewhat higher, although nearly two-thirds of 28 commodities in the index are under price ceilings or other control.

The action of agricultural prices is again disturbing. Cotton prices rose sharply last week to the highest level since 1928 or earlier, the 10-market average reaching 20.2 cents a pound. Print cloth prices accordingly increased under the flexible ceiling plan. Wool prices advanced as the ceiling on wool was revised upward. Butter prices turned sharply upward Saturday on a contra-seasonal and unexpected 2-cent mark-up in the Department of Agriculture's buying price. Grain prices, led by soy beans, also rose noticeably at the end of the week, with the action of wheat prices apparently indicating that the recent selling movement has placed the wheat market in position for a renewed advance.

The BLS all-commodity index in the week ended March 21 rose 0.1 percent, and now stands 29.6 percent above the pre-war level of August 1939. (See Chart 2, upper section.) Since our entry into the war, the index has risen 5.4 percent. Two-thirds of this rise occurred in the six weeks following December 6, and one-third of the rise in the nine weeks ended March 21.

Cost of living higher

The advance in wholesale prices continues to be reflected in a sharp rise in the cost of living. (Refer to Chart 2.) From early indications living costs have continued to rise since mid-February. Food costs, which constitute one-third of the average working man's budget, have advanced about 1.1 percent in the month ended March 15 according to BLS sample data on 18 foods in 19 cities.

In this connection, Mr. Dexter M. Keezer, Assistant Administrator of the OPA, in charge of the Consumer Division, said in a recent speech,

> "... The simple fact is that today we are losing the battle against inflation. Prices are going up all along the line and at a dangerously accelerated pace.... The records indicate that, as a whole, retailers have exercised considerable

restraint in raising their prices. They, along with the rest of us, are caught by forces which are exercising a tremendous upward pressure on prices.

"... The nature of this pressure can be indicated by the fact that national supplies available for civilians are being cut about 1 percent a month to meet military needs, while money available to buy these supplies in the form of wages, salaries, profits, etc., is increasing about 3½ percent a month. This sets up a situation which, left alone, can result in a monthly increase of 3½ percent in the cost of living, a ruinous rate of inflation."

Livestock prices higher

While most of the rise in the index of basic commodities last week was in the industrial materials group -- cotton, print cloth, and wool -- prices of beef and hogs in the basic foodstuffs group were also higher. (See Chart 3.) Hog prices, which have risen 35 percent since our entry into the war, have recently been placed under price control by ceilings on hog products.

The rise in cotton prices reflects a continuous and unprecedented demand for textiles to fill government and civilian orders, together with some apprehension over the adequacy of the new crop to meet present consumption needs. The belief is growing that, for the first time since at least as far back as the Civil War, the total crop may not be large enough to supply the needs of domestic mills.

The report released last week by the Department of Agriculture on prospective crop plantings for 1942 indicated that the national output of agricultural products is likely to establish new high records this year, weather conditions permitting. Possible limitations on crop production, however, are threatened shortages of labor and equipment. Although the intended plantings (as of March 1) in most cases are not sufficient to meet fully the Department's war production goals, they indicate an increase of 3 to 4 percent in total crop acreage.

OPA enlarges control over retail prices

There has recently been increasing evidence of OPA's concern over retail prices, particularly on articles of which definite shortages exist. Last week the OPA acted to fix retail prices as well as wholesale prices on household durable goods, production or distribution of which will be further curtailed or eliminated in the near future. Price restrictions

were applied to washing machines, radios and phonographs, heating and cooking stoves and ranges, vacuum cleaners, mechanical refrigerators, and typewriters. In addition, on several occasions warnings have been given wholesalers and retailers against unwarranted price rises.

Farm income far above 1941 levels

In reflection of the sharp rise in prices of farm products during the past year, farm income has continued to run considerably above year-earlier levels. Thus, despite a somewhat greater than seasonal decline, cash income from marketings and government payments during February totalled $887,000,000, a gain of 40 percent above the corresponding month of 1941. This is probably also a measure of the increase in average gross incomes of farm operators, since the number of farm operators has probably shown little change since last year. (See Chart 4, upper section.)

The markedly higher level of farm income has, of course, been accompanied by a heavier volume of rural retail sales. During February, rural sales of general merchandise ran 38 percent above year-earlier levels, and showed a slightly greater than seasonal rise from the post-holiday lull which occurs in January. (Refer to Chart 4, lower section.) In connection with the sharp sales gain above-mentioned, it should be kept in mind that probably one-half of the gain was due to price increases.

Factory payrolls at new high

Factory payrolls are continuing to expand, and in February rose to a new record high. As will be seen in Chart 5, payrolls have shown an almost uninterrupted rise for more than the last year and a half, and by February the gain since the defense program started in mid-1940 reached almost 80 percent.

After declining moderately for 3 months, factory employment in February showed a small gain, although the rise was less than seasonal. Reference to Chart 5 will disclose that the rise in factory employment since mid-1940 has been substantially less than factory payrolls, since payrolls have been swelled by longer working hours, higher wage rates and overtime payments. As a result, average weekly earnings of factory workers have been in an extended upswing and in February attained new high levels.

An indicated increase of 24 percent in average weekly earnings of factory workers over February of last year may be compared with the 40 percent increase in gross cash incomes of farmers.

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An indicated increase of 24 percent in average weekly earnings of factory workers over February of last year may be compared with the 40 percent increase in gross cash incomes of farmers.

Department store sales higher

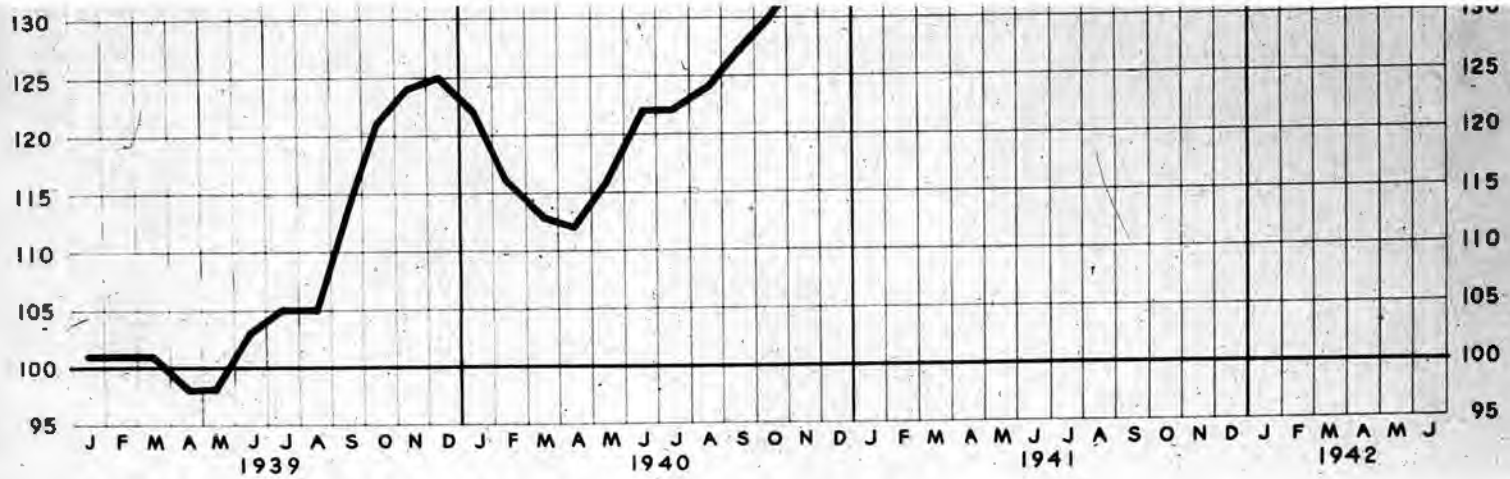
Stimulated by high payrolls, scare buying and the approach of Easter, department store sales in the week ended March 21 rose to the highest levels since December. The gain over year-earlier levels widened moderately to 26 percent from 24 percent in the week ended March 14. (See Chart 6.) While a major part of the gain over March 1941 levels is due to price increases, merchants are reported to be surprised at the strong sales showing, since this year's heavier income tax payments were expected to be a potent retarding influence. A factor tending, however, to make recent sales comparisons with 1941 slightly more favorable is the arrival of Easter one week earlier than last year, thus making for a slightly earlier sales peak.

A survey recently conducted by the Journal of Commerce is reported to have disclosed that retail stores are now joining consumers in the buying rush, despite the fact that most retailers are already heavily stocked with goods. Fears of transportation difficulties are said to be a dominant factor in the buying, although anticipated shortages in some lines has also been a factor. Recent buying of textiles by retailers is said to have broken records of many years standing.

Export freight for South America and Africa embargoed

Transportation problems, particularly those arising from the serious ocean shipping situation, continue to menace the war effort and disrupt normal traffic movements. As a result of the lack of ships, the Association of American Railroads early last week placed all non-government export freight for South America via North Atlantic ports under rigid control. Such freight henceforth will be permitted to move to seaboard only upon the presentation of reasonable evidence that the shipments involved can be moved promptly from the port.

At the time the control order was made public, the assistant to the manager of port traffic at New York stated that the action was taken to avoid port congestion, but denied that such congestion already exists. Later in the week, commercial export freight destined for South or East Africa was also placed under control and, according to one press report, ocean shipping space for such freight will not be available before May at the earliest.



Selected Components
Nov. 1941 and Feb. 1942 Compared with 1935-'39 Average

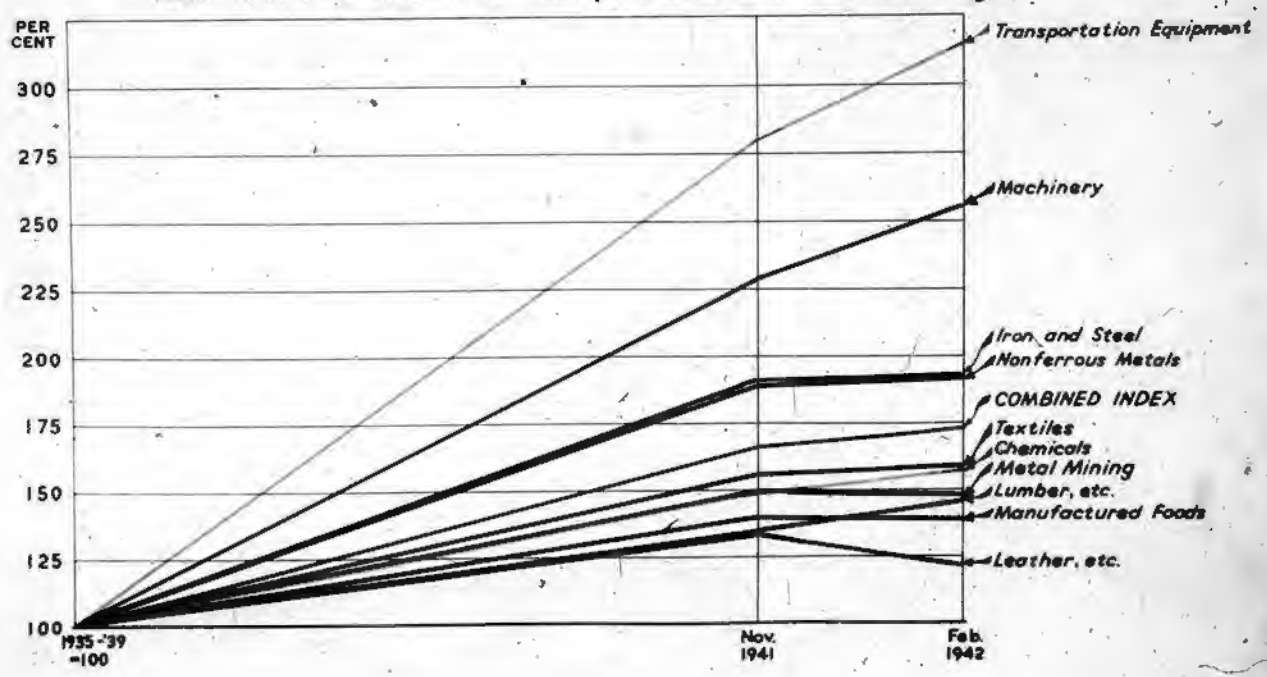


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Chart 1

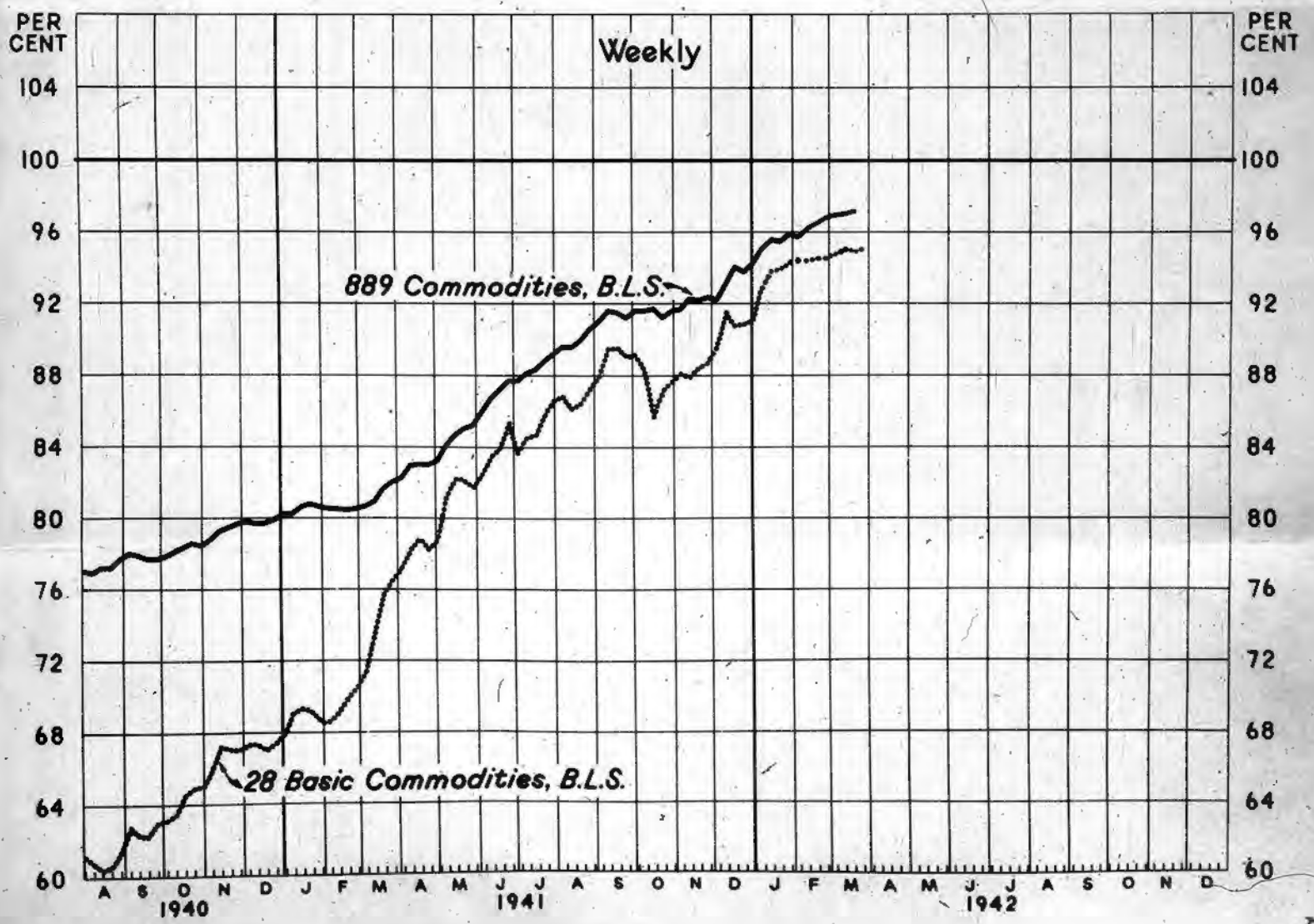

Chart 2

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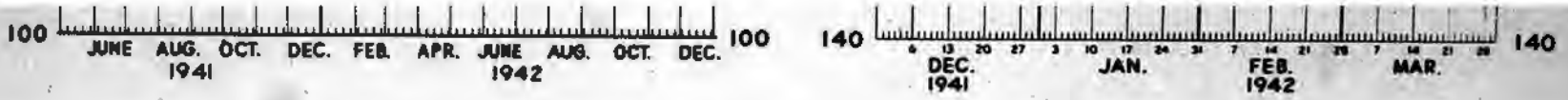
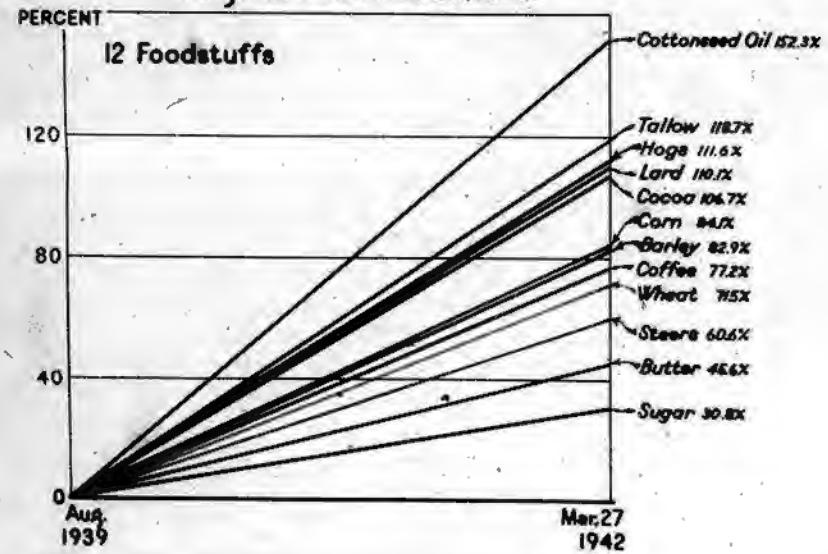
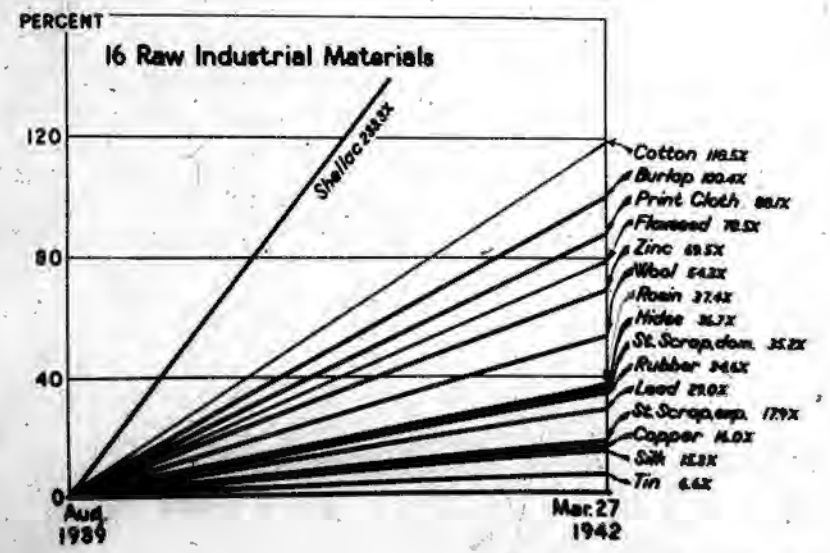


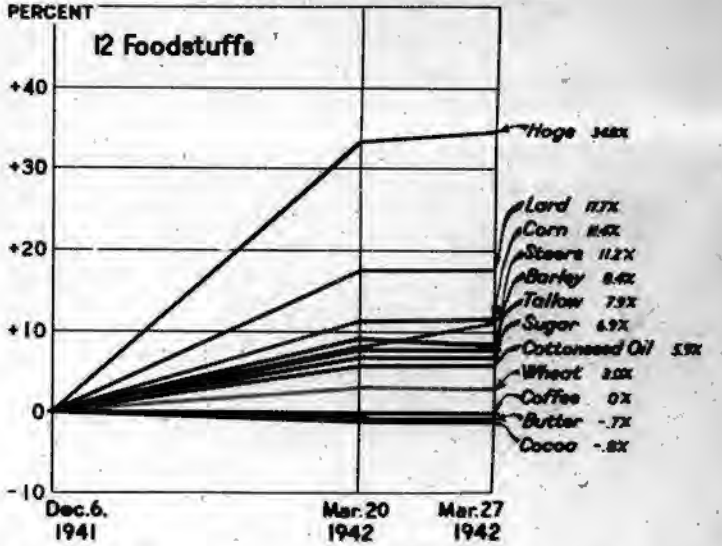
PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES*

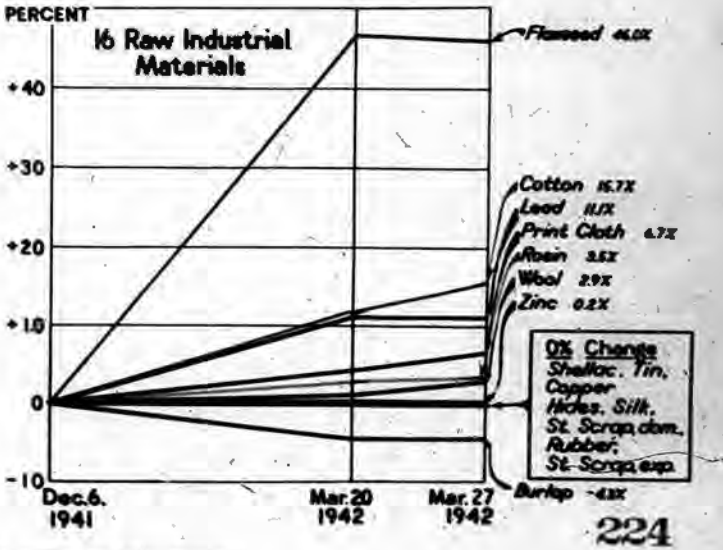
Aug. 1939 to Mar. 27, 1942





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





*Black lines indicate commodities under price ceilings or other control

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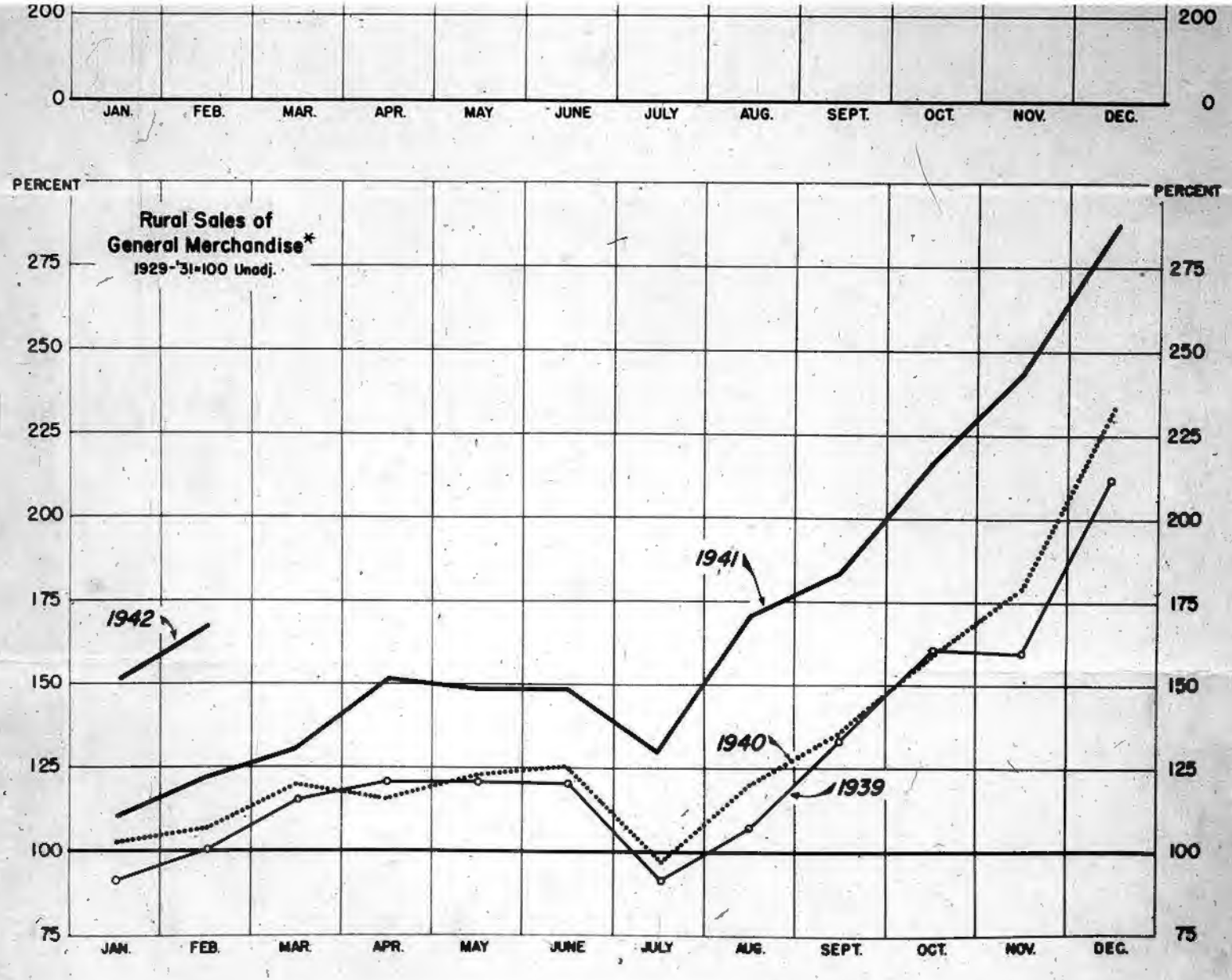
Chart 3



*Dept. of Commerce index of dollar sales of general merchandise in small towns and rural areas.

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Chart 4
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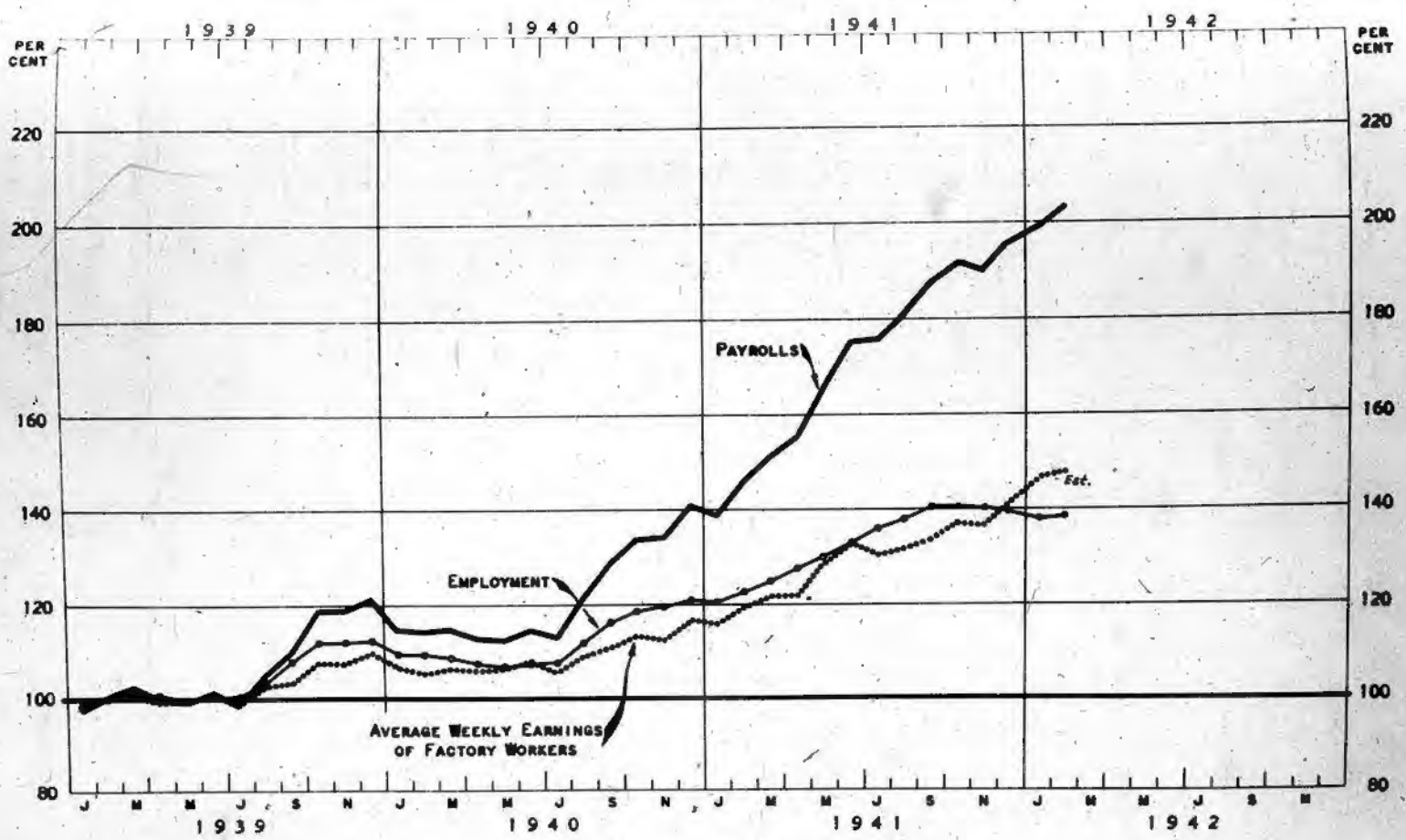
FACTORY EMPLOYMENT, PAYROLLS AND WAGES

First 6 Months of 1939 = 100, Unadjusted



Source: B.L.S.

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Chart 5

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Chart 6

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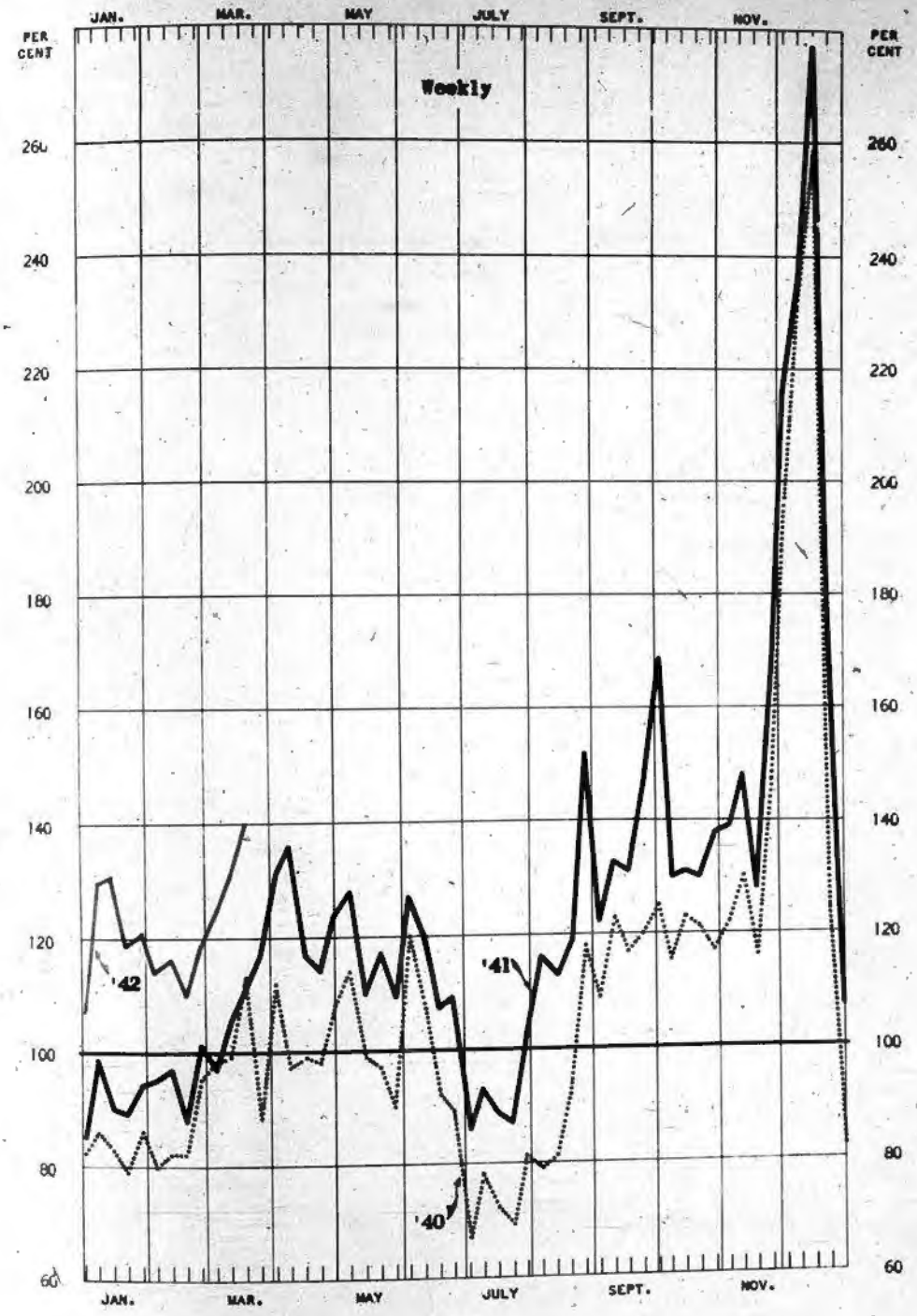
DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



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Division of Research and Statistics

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STRICTLY CONFIDENTIAL

MOVEMENT OF RUSSIAN LEND-LEASE MATERIAL FROM PHILADELPHIA PORT

Field Trip Report by Mr. Sidney G. Tickton, March 31, 1942

On Monday afternoon, March 30, I visited Mr. Louis Kline, Vice President of the Moore-McCormack Lines, Colonel H. G. Williams, of the War Department's Service of Supply, and Mr. Peffall, Assistant Collector of Customs at the Philadelphia office, to discuss the movement from the Port of Philadelphia of lend-lease materials for Russia.

A summary of the developments at Philadelphia as derived from my conversations with the foregoing gentlemen follows:

(1) Considerable progress has been made during the past week toward improving the railroad traffic situation in Philadelphia. The number of freight car loads placed on the ships at port was brought up sharply during the week and is expected to be maintained at a high level as long as shipping space is available. Daily loadings since Monday, March 23, follow:

Monday	March 23	139
Tuesday	March 24	178
Wednesday	March 25	196
Thursday	March 26	202
Friday	March 27	249
Saturday	March 28	252
Sunday	March 29	80
Monday	March 30	342

The small number of freight cars loaded on Sunday was due to the heavy rain storm that extended throughout the day. (I have just been advised by 'phone that the number of car loads placed aboard ship today, March 31, will be low because of rain this morning.)

(2) The foregoing figures were either checked with or provided by the Army officials at Philadelphia. These officials state that the statement that 400 cars were loaded on any one day last week is in error. Approximately this number of cars were unloaded on a number of days, but many of the cars were unloaded onto the docks for temporary storage and not onto the ships.

(3) Six ships sailed from the Port of Philadelphia last week. One more ship would have sailed had the stevedores not stopped working three hours before the loading was completed Saturday night. The Army officer on duty at the pier made numerous efforts on Saturday afternoon to get these stevedores to extend their working day but he was not successful. Colonel Williams hopes to bring about an improvement in stevedore

cooperation but he says that the job will require very careful handling. It was stevedore trouble, it is recalled, that forced the Maritime Commission to move ships carrying Russian cargo out of Boston a few months ago.

(4) Eleven ships are expected to sail from Philadelphia this week. Including the ships that will arrive, there will be about fifteen ships loading in the Port of Philadelphia by Saturday. This compares with twenty-four ships loading in Philadelphia last Monday, March 23.

(5) The Maritime Commission has assigned thirty ships for the Russians to the Port of Philadelphia for the month of April. These ships will be able to take between 175,000 and 200,000 tons of cargo. They will require about 90,000 tons of bottom cargo -- steel, tin plate, brass, etc. -- or about 20,000 tons of such cargo each week. This week's requirements for bottom cargo are assured, it appears, Colonel Williams' records showing that 587 freight cars containing approximately 24,000 tons of such materials were in transit last Saturday afternoon.

(6) The shipping people and Colonel Williams have a strong feeling that customs paper work should be streamlined. They say that they would be assisted in getting boats out of port if the "shipper's export declaration" was eliminated and incomplete ship manifests were accepted. Any authorization to eliminate shipping papers must come from Washington, the Philadelphia Customs officials told me, because the information provided therein is of interest to the State Department, Commerce Department, Lend-Lease Administration, and the Board of Economic Warfare, as well as to the Treasury Department. (When I returned to Washington Mr. Mack, Director of Procurement, told me that discussions between Procurement, Customs, and other interested agencies with regard to the elimination of customs papers were now under way.)

March 30, 1942

Mr. Thomas B. McCabe
Deputy Administrator
Office of Lend Lease Administration
515 - 22nd Street, N.W.
Washington, D. C.

Dear Sir:

As requested in your memorandum of March 21, 1942, addressed to the Secretary of the Treasury, the Procurement Division will be very pleased to render all available assistance in the purchasing of materials previously contracted for in the United States by the Netherlands East Indies. At the present time we are negotiating with them for the purchase of some textiles and also the copper which they purchased from the marginal mines.

We note that it is intended that this material be purchased at cost. Is this meant to be 'out of pocket cost' to the Dutch, such as storage, commissions, etc., or the invoice cost of the material?

Very truly yours,

Clifton E. Mack
Director of Procurement

Walsh/lfc

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

March 21, 1942

MEMORANDUM TO THE SECRETARY OF THE TREASURY

FROM: Thomas B. McCabe

SUBJECT: Purchase of Material Owned by the Netherlands Purchasing Commission

The Netherlands Purchasing Commission now owns or has contracted for, in the United States, between $200,000,000 and $300,000,000 of military and other material which is no longer required since the fall of the Netherlands East Indies. The Commission is seeking to dispose of this material at cost.

It is our thought that all material which is standard with the War and Navy Departments should be purchased by War and Navy at cost to the Dutch, and paid for out of their respective appropriations.

With respect to non-standard military equipment and other material which can be classed as defense articles under the Lend-Lease Act, we propose that it should be purchased by the Procurement Division of the Treasury Department at cost to the Dutch, and paid for out of funds allocated by Lend-Lease. It could then be held subject to transfer to other governments under the

FOR DEFENSE
BUY UNITED STATES SAVINGS BONDS AND STAMPS

Lend-Lease Act.

We have asked the Netherlands Purchasing Commission to supply us with a schedule giving complete information concerning the material and contracts involved. When it has been received, we shall send it along to the War, Navy, and Treasury Departments in order that the classes of material may be determined.

In the meantime, we would appreciate an expression of your views concerning the proposed purchase by your Department.

D. B. Lee.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Shipment of Planes to British Forces, Week Ending March 24, 1942

Summary

1. In the week ending March 24, 1942, a total of 278 planes of all types (194 combat planes) were shipped to British forces.

2. The week in question is a record one in a number of respects. During this week:

a. The largest number of planes of all types were shipped; 278 compared to a weekly average of 100 in 1941, and a weekly average of 112 in 1942 to date.

b. The largest number of combat planes were shipped; 194, or more than double the 1941 weekly average of 70, or the 1942 weekly average of 94.

c. The largest number of Lockheed Hudsons (56) and of Consolidated Catalinas (12) shipped in any one week were sent out in this period.

3. The planes previously included in the category "To the Forces in Russia" have been dropped from this week's statement. Since these planes are for Russian use, they are included in the figures of our exports to Russia and, therefore, do not belong here.

4. Developments in the war have made necessary adding a new category; planes sent to the British forces in India. In the last week, five Grumman Martlet fighters were sent there. These, added to the nine Martlets previously sent to India, makes a total of 14 shipped to the British Indian forces.

Table A - Shipments by Area

	Week Ending March 24,1942		Total Shipped in 1942 to date		Total Shipped since Jan. 1, 1941	
To the United Kingdom						
Light and medium bombers	47		67		1,228	
Heavy bombers	9		14		118	
Naval patrol bombers	0		8		110	
Pursuit	42		470		781	
Army Cooperation	0		30		61	
Trainers	0		0		24	
Total to the United Kingdom		98		589		2,322
To the Middle East						
Light and medium bombers	17		137		467	
Heavy bombers	0		0		5	
Pursuit	0		155		1,003	
Army Cooperation	0		12		12	
Trainers	0		8		150	
Total to the Middle East		17		312		1,637
To the Canadian Forces						
Light and medium bombers	4		19		187	
Heavy bombers	0		1		1	
Naval patrol bombers	12		23		31	
Pursuit	0		30		72	
Trainers	84		209		1,450	
Total to the Canadian Forces		100		282		1,741
To the British Pacific Forces						
Light and medium bombers	26		84		179	
Naval patrol bombers	0		0		27	
Pursuit	32		60		228	
Trainers	0		0		105	
Total to Pacific Forces		58		144		539
To the British Indian Forces						
Pursuit	5		14		14	
Total to Indian Forces		5		14		14
Total						
Light and medium bombers	94		307		2,061	
Heavy bombers	9		15		124	
Naval patrol bombers	12		31		168	
Pursuit	79		729		2,098	
Army Cooperation	0		42		73	
Trainers	84		217		1,729	
Totals		278		1,341		6,253

Table B - Shipments by Types

	Week Ending March 24,1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
Bell Airacobra	11	238	392
Boeing B-17	3	4	24
Boston III	0	5	29
Brewster Buffalo	0	0	168
Cessna Crane 1-A (AT-17)	10	10	10
T-50	0	86	700
Consolidated Catalina	12	31	168
Liberator	6	11	100
Curtiss Kittyhawk	32	249	631
Tomahawk	0	0	544
Douglas Boston I and II	0	0	82
Boston III	0	0	410
Fairchild 24 R-9	0	32	54
Glenn Martin Baltimore	17	140	208
Maryland	0	0	150
Grumman Martlet II	5	19	60
Lockheed Hudson	56	127	1,097
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	21	23	23
North American Harvard II	0	47	944
Mustang	31	220	300
Pitcairn Autogiro	0	0	5
Stearman PT-27	74	74	75
Vought Sikorsky Chesapeake	0	0	50
Vultee Stinson-049	0	10	14
Grand Total - All Types	278	1,341	6,253

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Table C - Plane Shipments to the British by Weeks

Week Ended	Light and medium bombers	Heavy bombers	Naval patrol bombers	Pursuit	Army Cooperation	Trainers	Total
Weekly Average of shipments in 1941	36	2.2	2.7	28.3	.6	30.2	100
January 6,1942	24	0	5	30	4	9	72
January 13,1942	3	0	2	58	0	42	105
January 20,1942	8	0	0	14	0	60	82
January 27,1942	24	0	1	100	5	13	143
February 3,1942	9	0	3	10	4	4	30
February 10,1942	33	0	3	59	0	4	99
February 17,1942	12	0	2	41	7	0	62
February 24,1942	33	0	2	86	7	1	129
March 3,1942	26	0	1	80	6	0	113
March 10,1942	29	2	0	78	1	0	110
March 17,1942	34	1	0	94	8	0	137
March 24,1942	94	9	12	79	0	84	278
Total shipments since January 1, 1941 to date*	2,061	124	168	2,098	73	1,729	6,253

* These totals include a few aircraft shipped ~~in 1942~~ prior to March 17, 1942, which are not listed in the weekly figures. Due to a mistake by the source of the data, Lend-Lease aircraft flight deliveries were not included in the weekly statements. The correction has now been made in the totals.

TREASURY DEPARTMENT

For Miss Chauncey

INTER-OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
Mar. 9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	500	500
13	-	-	-	-
14	-	-	-	-
	-	-	500	500
Sales from Feb. 22, 1940 to Mar. 7, 1942	9,847,610-1/6	281,858,763	45,647,516	37,473,716
Sales from Feb. 22, 1940 to Mar. 14, 1942	9,847,610-1/6	281,858,763	45,648,016	37,474,216

For Miss Chauncey

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	$ Proceeds of Shares Sold	$ Proceeds of Bonds Sold	Total	
Mar. 9	-	-	-	
10	-	-	-	
11	-	-	-	
12	-	- 500	500	
13	-	-	-	
14	-	-	-	
	-	500	500	
Sales from Feb. 22, 1940 to Mar. 7, 1942	281,858,763	37,473,716	319,332,479	
Sales from Feb. 22, 1940 to Mar. 14, 1942	281,858,763	37,474,216	319,332,979	319,332,979
$ proceeds of non-vested securities sold Mar. 2, 1942 - Mar. 7, 1942			800,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 - Feb. 28, 1942			243,900,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 - Mar. 7, 1942			244,700,000	244,700,000
			GRAND TOTAL	564,032,979

Jan. 7, 1942 - Cash Dividend on 156 Shares	$ 61
Jan. 9, 1942 - Partial Liquidating Dividend	125
9 Units sold from Aug. 18, 1941 - Mar. 14, 1942 for	42
11 Shares Stock Dividend sold Aug. 18, 1941 - Mar. 14, 1942 for	123
56,007 Rights sold from July 24, 1941 - Mar. 14, 1942 for	102,938

C O P Y

OUTGOING CABLEGRAM

March 30, 1942

Stabilization Board of China

Chungking

No. 4

Your Nos. 3 and 4. Payments made

Federal Reserve Bank of New York

Copy:bj:4-3-42

March 30, 1942

Mr. Livesey

Mr. D. W. Bell

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

"From Treasury:

With reference to cable No. 101 February 14, 2 p.m. and no. 170, March 13, 11 a.m. please advise the Central Bank of China, Chungking, that its designation as a depositary of public moneys of the United States has now been extended further to permit that bank to accept deposits and maintain accounts to the official credit of John Carter Vincent, disbursing officer for Division of Disbursements, Treasury Department, or his successor in office."

EDB:ew 3-28-42
copy:bj 3-30-42

TELEGRAM SENT

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

March 30, 1942
1 p.m.

AMEMBASSY

CHUNGKING, (CHINA)

237

From Treasury.

QUOTE. With reference to cable no. 101, February 14, 2 p.m. and no. 170, March 13, 11 a.m. please advise the Central Bank of China, Chungking, that its designation as a depositary of public moneys of the United States has now been extended further to permit that bank to accept deposits and maintain accounts to the official credits of John Carter Vincent, disbursing officer for Division of Disbursements, Treasury Department, or his successor in office. END QUOTE.

WELLES
ACTING
(FL)

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FF 740.00113 European War,
1939/320

March 30, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith paraphrased copies of telegram no. 1350 of March 20, 1942 from London, concerning German attempts to obtain control of business properties situated in occupied countries of Europe.

Enclosure:

From London, no. 1350,
March 20, 1942.

eh:copy
3-31-42

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, London

DATED: March 20, 1942, 10 p.m.

NUMBER: 1350

With an eye to their position, presumably at the peace conference, according to the Board of Trade's Trading with the Enemy Branch, there is evidence of German attempts to obtain control over the business properties of the Allies within German controlled Europe through legal means whenever convenient. Developments considered as confirming this view are as follows:

(1) The purchasing of outstanding bonds in the United States for destruction or for smuggling into Germany which is an established fact;

(2) The transfer to French nominees of British business properties in France, E. G. Huntley and Palmer, made compulsory by a German decree;

(3) The German purchase of as many properties as possible legally owned by refugees and located in occupied territories of which sufficient evidence exists to convince the British;

(4) The alleged attempt some two months ago to force the sale to French citizens of property in France belonging to A. Hollander and Son of New York City;

(5) The German attempt to make an outright purchase of the Hungarian company of General Electric which the Treasury Department is reported to have blocked.

The attempted transfer to Switzerland of the control of the French company belonging to the National Cash Register is considered as a new and recent development by the Trading with the Enemy Branch. The American company has refused the authorization for this transaction according to advice received from its London office by the British.

To establish Swiss majority control and thus give himself a better status with the German administrator as a representative of Swiss rather than American interests and to facilitate the supply of machines to Switzerland from the Paris factory, the American company's European representative has proposed that Swiss bankers furnish three million French francs for the purpose of increasing the French company's capital. Because of his confidence that Germany will grant its approval points to the suspicion that the Germans probably not only inspired the arrangement but would welcome it, although he appears to be innocent in the matter. A Bern report that the representative of the National Cash Register has received information from a German official that Switzerland could obtain machines from the Berlin factory should a new company be formed and the present Swiss company be permitted to die a natural death lends support in the matter.

It is suspected by the British that a political or legal advantage may exist for Germany by this move to utilize a temporary neutral as a repository for

control over the business property in occupied Europe belonging to Americans although the reasoning is not entirely clear. The Trading with the Enemy Branch takes the view to "find out what they want and then stop it".

It is intended by this message to call these suspicions to the attention of the American government as perhaps relevent to American policy should further transactions of this type be proposed, and soliciting for the British authorities any confirming evidence our Government can furnish. The background information on this general situation is known by F. W. McComb who recently arrived in Washington as the Trading with the Enemy Branch's representative at the British Embassy.

MATTHEWS

eh:copy
3-31-42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

For Mr. Chauncey

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£106,000
Purchased from commercial concerns	£ 6,000

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

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

Canadian dollar	13% discount
Argentine peso (free)	.2373
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	1/8% premium

We sold $3,990,000 in gold to the Central Bank of the Argentine Republic, which was earmarked for its account.

We purchased $864,000 in gold from the earmarked account of the Central Reserve Bank of Peru.

No new gold engagements were reported.

In London, spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

D

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 104

Information received up to 7 A.M., 30th March, 1942.

1. NAVAL

Air photographs of ST. NAZAIRE on 29th showed that the seaward lock gate was missing and the lock was flooded. H.M. Cruiser, escorting a convoy to RUSSIA, sighted and engaged three enemy destroyers about 180 miles north of the MURMANSK coast at 8.51 a.m. yesterday. At 9.8 a.m. report was received that one destroyer had been set on fire and she was in pursuit. No further report received.

2. MILITARY

BURMA. TOUNGOO FRONT. At 4 p.m. 28th situation obscure. Japanese reported reinforced and attacking from the south. Chinese counter-attack from YEDASHE in the morning met more resistance than expected...considerable casualties on both sides.

SOUTHERN SHAN STATES FRONT. Two Chinese companies attacked about 300 Siamess/Japanese troops in the MONGTON area. The enemy retired after suffering casualties.

3. AIR OPERATIONS

WESTERN FRONT. LUBECK. 28th/29th. 205 bombers including 46 heavy type, attacked from heights varying between 17,000 and 1,300 feet, dropping 163 tons of high explosive (seventeen 4,000 pounders) and 146 tons of incendiaries. Nearly half the aircraft, including 26 Stirlings, carried incendiaries only. Bright moonlight, no cloud. Anti-aircraft slight but fighter opposition severe. Two Junkers 88 claimed as destroyed. Some crews guided to target by fires seen 100 miles away. The island centre of the town was described as blazing like one large fire, and a machine tool factory was flattened. Two other large factories were badly damaged, one of them being well alight. Reports are unanimous in describing attack as most successful. 30 R.C.A.F., 15 R.A.A.F. and 10 New Zealand bombers took part. Two Canadian and one New Zealand were among those lost.

29th. Spitfires set fire to a naval auxiliary craft off NIEUPORT and probably destroyed an enemy fighter. Two are missing, pilots safe.

LIBYA. 26th. Bostons bombed MARIUBA landing ground. Escorting Kittyhawks probably destroyed three German fighters and damaged a fourth. Two were lost.

MALTA. 29th. Nine enemy bombers attacked, causing slight civilian damage. One was probably destroyed by anti-aircraft fire and a second was damaged by fighters. Reinforcements of seven Spitfires, two Beauforts and three Blenheims arrived safely.

MEDITERRANEAN. 27th/28th. Wellingtons carrying torpedoes hit an (? X, 00) ton cargo ship off PATRAS, GREECE.

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

March 30, 1942

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

Dear Henry:

Attached is the British Home Intelligence Report for the week ending March 23, 1942.

Sincerely,

Bill

William J. Donovan

Enclosure

SECRET

There does not appear to have taken place any definite change in the state of public confidence this week, the prospect on home and industrial fronts is still viewed with depression, even though allied initiative in the Far East contributed to "a certain brightening of the general scene". Some quarters openly discuss "the possibility of a defeat". The question "do we deserve to win" is coupled with this. "A certain reluctance to discuss the war" is reported from several regions.

A demand for inspired, strong and active government leadership is reported by ten regional intelligence officers. The main reaction to new restrictions on fuel and clothing has been an "almost pathological gratitude". Both are regarded as real steps toward a total war. "If the people's sacrifices are not capped by vigorous government action a swing toward communism or defeatism is thought likely".

Reference is made to a sense of "fatalism and frustration" in five regions. It is suggested that such feelings rise from the desire for concrete evidence that we are really tackling war production and successful British military action. Dissatisfaction over production comes both from the many stories of holdups and idleness which are in circulation and from the direct experience of workers and also from a "lack of information about what is already being done." Five RIO's record appreciation of Halifax's speech in this connection.

Far East. A more hopeful outlook is apparent in public feeling about this theatre of war. Regional intelligence officers are almost unanimous in ascribing this mainly to MacArthur's appointment. "MacArthur's prestige stands higher than that of any general outside Russia. Evidence is taken from the heavy blows dealt the Japanese fleet that "at last the allies can hit and hurt the Japs". This news "has counteracted the fatalistic depression caused by allied losses in the Java Sea Battle".

Cripps has receded a little from forefront of political picture. "Magnitude of his task is appreciated" but most people expect him to be successful. A typical comment is "the one man for the job". It is hoped that he will not be

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gone too long. The main public interest at the moment in India, it is stated, is "strategic rather than political" although "India should get her freedom" is the general feeling.

Singapore. Talk of its fall is being renewed. "It is the first time in history that so many men have surrendered without a fight." It is felt that "no adequate explanation has been given". "Sorrow seems to stifle criticism" among those with missing relatives.

Australia holds increasing interest. Presence of U. S. troops is welcomed but there is speculation as to real strength of these reinforcements. There is a wide belief that "Australia is gravitating more and more" toward the United States and is "as good as lost to us as a Dominion". It is regarded by most people who comment thus as a "sound idea to have a permanent link between the two countries" rather than as a disaster.

Russia. There is continued admiration for the Russian efforts but doubts of the accuracy of their communiques grows. The anticipated German eastern offensive in the Spring is causing increasing anxiety.

United States. There is an increasing belief that at last United States is "getting a move on", particularly in Australia. The news reels of Pearl Harbor are said to have "brought home to the people what a handicap it has been and how much was lost there".

Invasion prospects. There is some evidence that the people are growing "more invasion conscious in southwest" with little reliance on our methods of combating the invasion.

Inequality of sacrifice. Among certain sections of the public there is growing evidence of a feeling that "everything is not fair and equal and therefore our sacrifices are not worthwhile." In particular there is the belief that the rich are hit less by rationing than "ordinary persons. We poor beggars can't get petrol for business, yet we see the big bugs riding in their push cars."

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

March 30, 1942

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

Dear Henry:

Enclosed is a summary of German Home Propaganda prepared by the PWE.

Sincerely,

Bill

William J. Donovan

Attachment

SECRET
COORDINATOR OF INFORMATION

1. Aside from vague references to future harvests from the Ukraine there is no obvious endeavor to provide consolation for cuts in meat, bread, and fat rations and gloomy prospects for the vegetable and potato situation. Propaganda emphasizes:

(a) It is worse in Britain

(b) The military situation is improving

(c) Germany is aiding the New Order by feeding Finland and "worthy" elements of occupied countries.

2. Labor drive continues with the filling of 1,700,000 vacancies the goal! Forty thousand girls are being drafted into armament industry. Decree authorizes compulsory farm work by inhabitants of small towns and country. Under penalty of confinement in concentration camps in "serious cases" all private travelling is prohibited.

3. Russia continues to dominate the news. In spite of growth of confidence that the worst is over, there is great caution in predicting result of spring offensive. Home propaganda did not carry Wilhelmstrasse denial that British American tanks in use in Russia. Instead the destruction of American British planes and tanks claimed.

4. For the first time "hedgehog" military position is mentioned and new type "cockade" defense is described,--.

5. Growing attention to Australia, over which "British flag will not fly much longer" although not yet certain whether it will be replaced by Japanese or American flag. Increase in attention to American, Philippines, China, Mediterranean; decrease in attention to war at sea, western front, Japanese operations.

6. No attention at all to the following:

(a) Roumanian-Hungary squabble

(b) London debates on propaganda to Germany

(c) Trials at Riom

Instructions issued to avoid praising NEHRU and to avoid any commitment to breakdown Cripps negotiations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports

German Military Forces

(a) German Navy

The German Navy has concentrated the bulk of its available striking force at Trondheim. A heavy cruiser, Admiral Hipper, was able to reach Trondheim safely as a replacement for the Prinz Eugen which was damaged by a British torpedo on its way to Trondheim. At Trondheim, the Germans, therefore, have available for action the battleship Tirpitz, the heavy Hipper cruiser, and several destroyers. The only other German ships that are fit for fighting are an aircraft carrier, two pocket battleships, and four light cruisers.

The main concentration of submarines still continues to be in the West Atlantic and the West Indies.

(b) German Army

Coastal defenses in Norway have been strengthened. Five to ten new coastal defense battalions have been moved into the country. The main garrison still remains at eight divisions (160,000 men).

(c) German Air Force

The Germans have about 25 four-motor Condor reconnaissance bombers in Denmark and Norway. This represents the largest concentration ever made in this area. It is probably intended to provide reconnaissance for the German naval units at Trondheim.

Although the Germans have large numbers of fighters in France and Belgium, they are being used with great economy.

There are now over 400 German planes in Sicily. This is the largest number of German planes ever based in this area. About one-third of these are bombers. This force is maintaining

the highest scale of bombing of Malta in the war to date. On the average, 150 planes a day attack the Maltese air fields and shipping.

German air strength in Libya has fallen off due to the concentration in Sicily and now totals around 500. The British have air superiority on the Libyan front.

(d) German Military Preparations

Since January, the Germans have materially increased their production of TLC (Tank Landing Craft). A number of additional yards have been taken into use. Germany is now building at a rate of 300-500 a year. Within a relatively short time, it is estimated, the Germans will have 127 TLC available. (This development is most significant. There are several likely explanations:

(1) The Germans hope to finish the war this year, to crush Russia and to swing around and be completely prepared to invade England.

(2) As an act of desperation, the Germans may attempt to invade England while the bulk of their army is still tied up in Russia.

(3) The craft are being built for a rapid invasion of Sweden.)

(U.K. Operations Reports, March 12-19, 21, 22, 27; M.I.D. Situations Officer, March 25, 1942)

Japanese Fleet

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 is one flotilla of four destroyers.

The operations in New Guinea are being carried out by the Fourth Fleet, whose strength, with reinforcements from the Main Fleet, is estimated to be four 8-inch cruisers, two 6-inch cruisers, two 5.5 cruisers, two seaplane carriers, two aircraft carriers, eight destroyers, and nine submarines.

Considerable damage was inflicted on this fleet by Allied aircraft between the 10th and 20th of March. Four cruisers and three destroyers are reported to have been sunk, but individual ships have not been identified.

(U.K. Operations Report, March 12-19, 1942)

U.S. Airplanes in the Far East

In Burma, 59 Japanese bombers with fighter escorts made three attacks on an Allied airdrome. Eight Blenheim bombers were destroyed on the ground and seven damaged. All of the P-40's of the American Volunteer Group were damaged on the ground.

At approximately the same time, British bombers attacked a Japanese airdrome and either destroyed or damaged 28 Japanese airplanes on the ground.

(U.K. Operations Report, March 23-24, 1942)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, March 31, 1942.
3/30/42

Press Service
No. 30-91

The Secretary of the Treasury announced last evening that the tenders for $150,000,000, or thereabouts, of 78-day Treasury bills, to be dated April 1, 1942 and to mature June 18, 1942, which were offered on March 27, were opened at the Federal Reserve Banks on March 30.

The details of this issue are as follows:

Total applied for - $356,653,000
Total accepted - 150,435,000

Range of accepted bids: (Excepting two tenders totaling $17,000)

High	- 99.967	Equivalent rate approximately			0.152 percent
Low	- 99.948	"	"	"	0.240 "
Average Price	- 99.952	"	"	"	0.221 "

(41 percent of the amount bid for at the low price was accepted)

-oOo-

March 31, 1942
10:20 a.m.

FINANCING

Present: Mr. Buffington
Mr. Bryce
Mr. Haas
Mr. Bell
Mr. Hadley
Mr. Kilby

H.M.JR: Has Mr. Bell seen these. (Drafts that Mr. Buffington gave the Secretary.)

MR. BELL: I saw them in the rough. You haven't changed them, have you?

MR. BUFFINGTON: No, but we have a suggested change.

H.M.JR: Have you got a copy for him?

MR. BUFFINGTON: Yes.

Here is the suggested one. The only change in this one is that the maturity will be about six months.

MR. BELL: O.K.

MR. BUFFINGTON: We changed just this one sentence. "The maturity will be about six months."

H.M.JR: Which is this?

MR. BUFFINGTON: This is the latest one.

H.M.JR: What is this here?

MR. BUFFINGTON: That is the way we decided on it last night. The maturity will be not longer than nine months.

H.M.JR: Which is the last one?

MR. BUFFINGTON: This is the last one.

H.M.JR: Well, take these away then.

Now, look, in the first place, it is going to be April 6. We have decided that. "Another offering of the security will be made later in the month," why do we say that?

MR. BELL: That is following up your press statement.

H.M.JR: Supposing I want to change my mind. It doesn't go well.

MR. BELL: Well, you don't have to say it except to keep their interest, and you have already announced that you are going to have two issues.

H.M.JR: Well, I might change my mind, Dan. I don't want to commit myself. Something might go wrong. It might not go well. Well, that half a percent and that six months, we can leave it in, but I haven't seen the rates. How are they, George?

MR. HAAS: Well, it is not an easy thing to price, but it looks as though six months would have a premium of about two thirty-seconds or something like that; and, if you put it in not more than nine months, then if you actually sell it at six, it looks as if the situation got worse, and I was taking your idea that maybe the first one would be sweet and the next one you would stretch out a bit if you were going to offer it. I thought it would be safer from your point of view to say about six months. You can go five or seven or maybe eight and still

be within the "about six months."

H.M.JR: Have you talked to Hadley?

MR. HAAS: Hadley, I think, and Piser and New York - I think we all are about the same on that, but you might have Hadley in and talk to him.

H.M.JR: I will ask him.

MR. BELL: It hasn't changed materially since we talked before and everybody has two or three thirty-seconds. On six months or a half percent, it doesn't make much difference.

(Mr. Hadley entered the conference.)

H.M.JR: Hello, Hadley. Hadley, if you had to price a certificate this morning, what would you price it, how many months and what rate?

MR. HADLEY: I would still do it six months for half a percent.

H.M.JR: How many thirty-seconds velvet?

MR. HADLEY: That would give you about two or three.

H.M.JR: There has been no change?

MR. HADLEY: I don't think so. I think on this first one we have to sort of make our own answer.

H.M.JR: O.K. Thank you, Hadley.

(Mr. Hadley left the conference.)

MR. BELL: You see, in this letter you are deciding the rate. You say it will bear interest at the rate of one half percent. The maturity you can vary a little in months, but we are deciding here the rate, which I think is all right.

H.M.JR: Well, with Eccles coming in in thirty-five minutes, we might just as well decide it this morning. (Laughter) What is funny?

MR. BELL: Just that.

H.M.JR: Why?

MR. BELL: You seem to think it will be announced shortly afterward.

H.M.JR: Oh, I don't mean that. Is that what you were thinking?

MR. BELL: That is the way I took it.

H.M.JR: I didn't get it. Well, that is true, too. Is that sentence true, about many corporations?

MR. BUFFINGTON: Yes, sir.

MR. BELL: That is the result of George's trip.

H.M.JR: By April 3, isn't that too late?

MR. BELL: No, we would get it out of here not later than Saturday evening.

H.M.JR: And then you would have to use telegrams.

MR. BELL: Well, they would get it Monday morning even if we mailed it.

MR. BUFFINGTON: That date was predicated on the seventh offering. When you back the offering to the sixth--

H.M.JR: Oh, you figure that - isn't that too close?

MR. BUFFINGTON: Well, it is close.

MR. BELL: We are traveling under pretty close orders.

We contemplated airmailing west of the Mississippi and mailing everything east of the Mississippi.

MR. BUFFINGTON: Tonight.

MR. BELL: Yes, tonight.

H.M.JR: Tonight?

MR. BELL: Wednesday night, excuse me, tomorrow night.

H.M.JR: You would use mail instead of--

MR. BELL: That is what we are contemplating. You see, if you get out Wednesday night by air mail - it will get to the West Coast by Thursday evening, and they will have Friday to consider it and telegraph us that they are interested.

MR. BUFFINGTON: Providing there is no delay in weather.

MR. BELL: That is right.

H.M.JR: Well, nobody has sent for Western Union?

MR. BELL: No, we have not.

MR. BRYCE: I think your air-mail stamp puts a good touch on it. Even around here, that attracts attention when it comes air mail from the Treasury, but you have though that all out.

H.M.JR: I am not satisfied on the mechanics of that thing. Who handles the mailing of this stuff?

MR. BELL: Kilby. He is getting the list.

H.M.JR: Do you mind if I send for him later on?

MR. BELL: No indeed.

H.M.JR: Well, I think you ought to put this: "If you will telegraph me not later than Friday evening that you would be interested." You don't say what you want to telegraph. It is all right. Wouldn't you say that you would like--

MR. BUFFINGTON: We consider that you are asking two questions, and it seemed to me that you will get a response, and we wanted as many responses as possible to get the size of the market and that is why I purposely left the question a little vague.

H.M.JR: Would a man understand that? What is he to telegraph about?

MR. BUFFINGTON: "If you will telegraph me not later than Friday evening, April 3, I shall be glad to send you before the offering date complete details of the terms of this issue--"

H.M.JR: I see.

MR. BUFFINGTON: "... and see that you are advised by subsequent--"

H.M.JR: Well, this is saying a lot. Do you think the average fellow would know what that is all about? I mean, I understand it.

MR. BELL: I think so.

H.M.JR: Well, as a new offering - as it may only be open one day, prompt action is necessary if he wishes to participate. Prompt action on telegraphing me?

MR. BELL: No, what you are telling him is that on April 6 you are going to have this offering and that it may only be open one day, so he had better get his subscription in that day if he wants to participate in the offering.

H.M.JR: Do you say Kilby is your man on this?

MR. BELL: Yes. As long as you have cut out the second sentence in the first paragraph, I wonder if you should eliminate in the last paragraph about the subsequent offerings.

H.M.JR: No.

MR. BUFFINGTON: Oh, that is general.

H.M.JR: No, that is general. You wouldn't have time to have stamped on the outside, " Announcement of Treasury financing"? Couldn't they just run them through?

MR. BELL: They could put on there in red, "Important." or "Special, Treasury Department Business." I think if you put that air mail stamp on that will draw attention.

H.M.JR: Well, you could do that and just run it through, "Treasury financing offering."

MR. BRYCE: I would like it to go the other way. I think it looks like you are having to put a touch on and you don't. You just stick an air mail stamp on and that attracts the attention and it is a nice dignified attention and away it goes. If you put that on it might appear that you are having to do something you don't have to do.

H.M.JR: Who will see the air mail stamp? The president of the corporation won't see it.

MR. BRYCE: Well, I think it will get rushed into the president's desk, "Here is an air mail from Washington. (Mr.Kilby entered the conference.)

MR. BUFFINGTON: Mr. Secretary, you may be right, that in that first sentence in the last paragraph if you would say, "If you will telegraph me not later than Friday evening indicating your interest, or that you are interested, I shall be glad to sent you the information," and so forth. Would you rather have that?

H.M.JR: Yes. Kilby, could you - who types this for you? I will get Miss Chauncey and tell her to re-type it. Kilby, on the mechanics - do you know anything

about this letter?

MR. KILBY: Yes sir.

H.M.JR: How do you propose to do it?

MR. KILBY: On the corporations, about seventy-five hundred of them, we are starting this morning to pull addressograph plates and the envelopes will be addressed on addressograph plates. I understand there are about eleven hundred of these other offices and we would typewrite the addresses on those.

MR. BELL: You see, we have no plates for the--

MR. KILBY: We have no plates at all on those.

H.M.JR: Well, now, I will tell you what I would like you to do for me, will you? Would you send today, this morning, for representatives of both Western Union and Postal Telegraph, see, and say to them, "Look here, gentlemen, how much would you charge if we would give you these addresses tonight so that you could distribute them to your various branches within the zones?" so they will get them into the lowest zone, you see. I mean, so that each one could be sorted and sent. I don't know what they will - if it is - let's say that they have a night letter rate of fifty cents for fifty words. I don't know. Let's say that is the lowest that they can be distributed to go within the - you get me. It is like Sears Roebuck mail order catalogs. I mean, you - so they would get in the lowest zone.

MR. KILBY: Yes.

MR. BELL: In other words, they send this letter to Chicago and it would be distributed to all of the corporations in the Chicago zone. We only pay for the transmission of a wire once, plus the delivery in that territory.

MR. BRYCE: That is the way they do it in the bond business.

MR. KILBY: Now, do we have the list yet?

H.M.JR: I didn't know it, but I was sure it could.

MR. BRYCE: It is a good thought.

MR. BELL: Murphy will have that today.

MR. KILBY: Do you have the list on it?

MR. HAAS: I presume so. He is getting it from Census.

H.M.JR: Well, I take it they would have it tonight, you see.

MR. BELL: That is right.

H.M.JR: Kilby?

MR. KILBY: That would be a coverage then of about eighty-five hundred.

H.M.JR: Yes, and that this thing would be distributed to each zone which is the lowest zone and they would send out the names, the addresses, which could be made available to them tonight and then tomorrow is what?

MR. BELL: Wednesday.

H.M.JR: And the letter would be made available to them tomorrow, you see. So they could get these names tonight which they would send out in advance and then one letter would go to each zone and from there it would be distributed. Now, in this thing, it is good for them because we are asking each person to telegram them back so it is business for them, you see. Find out what kind of a deal we could make with them.

MR. KILBY: And the time would be that--

H.M.JR: The names would be made available tonight, and the letter would be made available tonight and it would be rea

to go out Wednesday night?

MR. BELL: Well, if you can clear the whole thing up today, it would be better if it went out tomorrow. It would give them one more day to make a decision.

MR. BRYCE: You mean tomorrow night?

H.M.JR: No, what I am getting at is this. If we get the thing - the names into the hands of the telegraph company tonight and the letter if you wish, then what I am talking about is a night letter leaving their zone Wednesday night so it would be in the hands of these people Thursday morning, be on their desks Thursday morning.

MR. BELL: That certainly can be done.

MR. KILBY: That will give them two days to think it over, Dan.

MR. BELL: No.

MR. KILBY: Assuming that they take until Friday evening to decide.

MR. BELL: Thursday and Friday.

H.M.JR: Yes, it would give them two days, Dan.

MR. BELL: That is all right.

H.M.JR: Could you give them those names?

MR. HAAS: I don't know. I think so.

MR. BELL: Well, Murphy was getting them Friday, and I think they were available yesterday.

H.M.JR: You could find out.

MR. BELL: They were getting about eleven hundred names from the Census.

H.M.JR: Well, I don't know how it is done between

Postal and Western Union. I don't know, but you could send for both of them.

MR. BELL: You might have to divide up the business.

MR. KILBY: Yes.

H.M.JR: Well, I think that is the only fair thing to do.

MR. BELL: We have done that before, divided up the business.

H.M.JR: They have handled this before. This isn't a new thing.

MR. KILBY: It is an old story to them.

H.M.JR: It can't be an original idea. It is original with me because I thought it out but it can't be for them, and I think that the shortness of the time there and everything else - don't you think getting a telegram from the Treasury would be that much more impressive?

MR. BRYCE: Oh, sure, you bet!

H.M.JR: What?

MR. BRYCE: Sure. That will get right in there where they will read it fast.

H.M.JR: And it will be a night letter. These aren't very long, you see. I would just like to have that as against the mail, Dan. I mean, we can see what it costs. We have got money enough to do this?

MR. BELL: Oh yes, this won't break us, but it is expensive financing.

H.M.JR: Well, I figure the telegrams won't cost over a dollar apiece.

MR. BRYCE: You are going to get more answers this way and that is what you want.

MR. BELL: That might be possible.

MR. BRYCE: On your first try.

H.M.JR: This thing at the outside can't cost ten thousand dollars. My God, in seven hundred fifty million it is nothing. Well, Kilby, get on that.

MR. KILBY: Right away sir.

H.M.JR: Will you?

MR. KILBY: Yes sir.

H.M.JR: George, are we relying on you for anything?

MR. HAAS: We are relying on Henry to get these names and he can get in touch with Henry as soon as he goes out.

H.M.JR: If there is any trouble let George know.

MR. KILBY: Fine.

MR. BELL: There are some changes in that letter, Ed. That gives you the approximate words.

H.M.JR: But get on that. I am interested.

MR. KILBY: Fine. (Kilby left the conference.)

H.M.JR: Now, in this thing you fellows have left off, "See your banker." Oh, that goes in the circular.

MR. BRYCE: Yes.

MR. BUFFINGTON: Yes.

H.M.JR: What have you done? You wanted an hour this morning. What did you do with it?

MR. BUFFINGTON: We had some bankers in here for an hour from Cleveland.

H.M.JR: What did you do with your hour?

MR. BRYCE: We caught him without any teeth. He was supposed to go to the dentist this morning, but he got here. We talked to the president of the Cleveland Investment Bankers Association, and Fulton of the National Security Dealers and that covers the crowd we were talking about. You get most of your brokers in those associations too. There is no question in their mind but what they can give a hand. They are sitting downstairs now just waiting to hear. We can throw them into it any way you want them. That involves maybe getting a man from Chicago here or New York or something like that and just getting the thing tuned up.

H.M.JR: Can you do it by Monday?

MR. BRYCE: Oh, sure. Just how much they are going to do you will have to wait and see but they are willing and will try, you don't have to worry about that.

MR. BUFFINGTON: If agreeable, I would like to move more rapidly than that to give them the story and have some one from New York here today and have this all decided by noon tomorrow which we can do very easily.

MR. BRYCE: You can work fast on it. Now, what the results will be, we don't know, but they will try and I think they ought to be able to get some good results.

H.M.JR: Well, we will know by noon today. When the Federal Reserve Board comes in we will tell them the story at eleven o'clock and make up our mind by noon or sooner. I am not going to spend an hour with them. I won't spend an hour with them. We will know by eleven-thirty.

MR. BELL: No, I don't think you have got very many questions to decide here.

H.M.JR: Have they raised the question of to whom the fellow gives his check or anything like that?

MR. BRYCE: Yes, they did bring that up.

MR. BUFFINGTON: In answer to your thought yesterday about not disturbing the money market, all of these investment people who will be making these offers to corporations have their principal banking account where they do their banking. They would go to these banks and subscribe and have the checks go into those banks, where they would be debited. They would debit the accout or a check would come through from the corporation and be deposited in the banks to their account and the checks in the main would stay in the member banks. We would ask them to do that to keep the funds in banking channels.

H.M.JR: How is that?

MR. BELL: It is all right.

H.M.JR: Well, take this time. Even if you gentlemen ask me--

MR. BUFFINGTON: There is one question. In the last paragraph of this letter, we say, "I shall be glad to send you before the offering date the complete details." To expedite that and set up the machinery for future issues, and it seems to be in accordance with this statement, I would like to see those letters or offerings, or details of the offerings go out to the corporations via the Federal Reserve Banks who are our fiscal agents rather than us to send it out directly from here, and we could depend upon them to do it. Then tell the investment banking group, since this becomes public the minute the corporations receive the telegrams, "Go to work immediately on the corporations to enlist their interest in making their subscriptions through their investment bankers or through the banks," if there is no objection to that.

H.M.JR: You mean the next time?

MR. BUFFINGTON: This time. We will send this letter directly, but the detailed offering will be sent by you to them through the Federal Reserve Banks.

MR. BELL: I would say then, "I shall be glad to have sent to you before the offering date complete details."

MR. BUFFINGTON: Well, I used it this way, thinking that their being our fiscal agents this statement was all right.

H.M.JR: Now, if we get these telegrams Sunday, how the hell are you going to get these names?

MR. BELL: Oh, we will send these names tomorrow night to the Feds if you plan on that.

H.M.JR: Well, you are only going to send these people circulars who telegraph back and say they want it.

MR. BELL: Well, what we will do is, after we get the telegram back we will have to send it to the Federal Reserve Banks and ask them to put these people on their mailing lists.

H.M.JR: If the telegrams come in Saturday morning, can you get those names to the Fed Saturday so they will go out Saturday night?

MR. BELL: Yes.

H.M.JR: Five thousand names, you can get them to the Federal Reserve Banks?

MR. BELL: No, we would send them a full list tomorrow night by mail.

H.M.JR: But that doesn't answer me, Dan. You will send them a full list but you don't want to send anybody on that list a circular unless he says he wants it.

MR. BUFFINGTON: I think you do. I think as we do in the investment business, you want to send your circular

to all people on the list whether they indicate they are interested or not.

MR. BRYCE: The point is that he is saying in his letter, "If you want the dope I will send it to you," and he is going to send it to them anyway. That is what is bothering you.

H.M.JR: Yes. The fellow says, "I didn't tell him and damn it he is sending the stuff anyway." I mean, some fellow who is mad at the Government and we send him a telegram, "Here is the Secretary of the Treasury, he spent a dollar of my taxpayer's money and I didn't want the thing and then he sends me a circular besides. What the hell is the matter with that man"?

MR. BRYCE: What have the Federal Reserve been doing? What is their regular procedure? Do they regularly send to some of these corporations?

MR. BELL: No doubt many of them are on their mailing list, and we would have to eliminate them if we didn't want them to send them to them. There will probably be a lot of corporations on their list that won't be on ours, employing less than five hundred people.

MR. BRYCE: You could change that letter and catch that so it would tie up a little bit.

MR. BUFFINGTON: Or we could designate from those lists you are sending out the names to whom they are to send these circulars on Saturday.

H.M.JR: Why do you want to - that changes the whole thing. Why do you want the thing to go out from the Fed?

MR. BUFFINGTON: Just to simplify it. There is no need of it because Dan thought it would simplify our work in Washington since they had the lists.

MR. BELL: And there will be duplications if we don't

do that. They will get two, one from here and one from the Federal Reserve Bank.

H.M.JR: Well, Dan, just stop and think. Let's say you get five thousand names. As they begin to come in through the System, can you send those things all day long? Can you clear them to the twelve districts?

MR. BELL: I think what we should do is send each District a list and each name would be numbered and then when these come in we can say, "Send your circulars to the following corporations corresponding to the numbers on your list. One, two, three and so forth."

H.M.JR: You would just have to send one number?

MR. BELL: Just one number.

H.M.JR: I think that would be all right.

MR. BELL: That would be one way of getting it accurate, and eliminating them also from their mailing list, not duplicating that, not giving them a notice in case they didn't want it.

H.M.JR: And then if a fellow happens to be on their list who didn't answer, it wouldn't be any great tragedy.

MR. BELL: No, I don't think so. They could eliminate from their list if they had time to pull those plates on Saturday.

H.M.JR: Yes. Now, who works that out?

MR. BELL: That will be done through Kilby's office.

H.M.JR: I think if every one of these could be numbered and they could be sent to the Federal Reserve, then you could just check them as they come in. That wouldn't take so long.

MR. BELL: No, that wouldn't take so long.

H.M.JR: Because some of these telegrams will begin

to come in Friday morning.

MR. BELL: We might get some of them Thursday.

MR. BRYCE: Oh, sure.

H.M.JR: And as they come in they could begin to clear the numbers.

MR. BELL: That is right.

H.M.JR: And then have it - and then mail them to the Federal Reserve Saturday night. Everybody will get it Monday morning.

MR. BRYCE: I should think your best answers would come the first day. They are the ones that really want it and the others answer because they think it is the thing to do. But on Thursday when you get the wire, they - well, they ought to come in fast.

H.M.JR: If you mail it Saturday night you gain Sunday's train time so everybody will have it Monday morning. You haven't sold me yet not to keep it open two days though, Mr. Bell.

MR. BELL: Haven't I?

H.M.JR: Not on all of this thing, no.

MR. BELL: Well, I don't see much advantage in keeping it open and I don't think you will get many more subscriptions and I don't think you would get many subscriptions the first day. All of them would wait until the second day to subscribe just like they always have in the exchanges. You do run a little chance. After all, you are announcing this on Saturday or making up your mind on Saturday. That means you don't get the results until Tuesday night.

H.M.JR: When are you going to put it in the paper, Sunday or Monday morning?

MR. BELL: I think we would get a little better publicity in Monday's paper, don't you?

H.M.JR: I think so. What do you think of putting the announcement of this on the air for Monday? Would anybody listen?

MR. BRYCE: Not the crowd you are after.

H.M.JR: Then it would be just confusing. Well, give me ten minutes to get the cobwebs out of my hair. I would like both of you to come back at eleven. George, you too.

MR. HAAS: O.K.

TO THE PRESIDENT OF THE CORPORATION ADDRESSED:

The Treasury Department expects to make a public offering of about $750,000,000 of Treasury certificates of indebtedness on Monday, April 6, 1942. The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

Many corporations have indicated the desire to invest current accumulation of business funds in this type of security. I am calling this issue to your attention since it occurs to me that your corporation may wish to obtain some of these securities on direct subscription.

If you will telegraph me not later than Friday evening, April 3, 1942, indicating your interest, I shall be glad to have sent to you before the offering date complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate.

Sincerely yours,

Secretary of the Treasury

(GOVERNOR OF THE STATE ADDRESSED:)
TO THE (CHIEF EXECUTIVE OFFICER) OF THE (CITY) ADDRESSED:
(COUNTY OR)
(DISTRICT)

The Treasury Department expects to make a public offering of about $750,000,000 of Treasury certificates of indebtedness on Monday, April 6, 1942. The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

Municipalities have indicated the desire to invest current accumulation of funds in this type of security. I am calling this issue to your attention since it occurs to me that your State (City, County, District) may wish to obtain some of these securities on direct subscription.

If you will telegraph me not later than Friday evening, April 3, 1942, indicating your interest, I shall be glad to have sent to you before the offering date complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate.

Sincerely yours,

Secretary of the Treasury.

(GOVERNOR OF THE STATE ADDRESSED:)
TO THE (CHIEF EXECUTIVE OFFICER) OF THE (CITY) ADDRESSED:
(COUNTY OR)
(DISTRICT)

The Treasury Department expects to make a public offering of about $750,000,000 of Treasury certificates of indebtedness on Tuesday, April 6, 1942. ~~Another offering of these securities will be made later in the month.~~ The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

Municipalities have indicated the desire to invest current accumulation of funds in this type of security. I am calling this issue to your attention since it occurs to me that your State (City, County, District) may wish to obtain some of these securities on direct subscription.

If you will telegraph me ~~by~~ indicating your interest not later than Friday evening, April 3, 1942, I shall be glad to send you before the offering date complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate.

Sincerely yours,

Secretary of the Treasury.

TO THE PRESIDENT OF THE CORPORATION ADDRESSED:

The Treasury Department expects to make a public offering of about $750,000,000 of Treasury certificates of indebtedness on Tuesday, April 7, 1942. ~~Another offering of these securities will be made later in the month.~~ The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

Many corporations have indicated the desire to invest current accumulation of business funds in this type of security. I am calling this issue to your attention since it occurs to me that your corporation may wish to obtain some of these securities on direct subscription.

If you will telegraph me not later than Friday evening, April 3, 1942, I shall be glad to send you before the offering date complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate.

Sincerely yours,

Secretary of the Treasury.

March 31, 1942
11:00 am

FINANCING

Present: Mr. Haas
Mr. Buffington
Mr. Bryce
Mr. Hadley
Dr. Goldenweiser
Mr. Eccles
Mr. Piser
Mr. Draper
Mr. Szymczak
Mr. Baker
Mr. Williams
Mrs. Klotz

H.M.JR: Dan, take a minute and tell us where we stand between now and the first of July, will you, please?

MR. BELL: Well, it looks as though our revenue estimates are going to be about five hundred million dollars more in March than we anticipated, so that is going to give us a balance going out of March of about two and a half billion. Carrying that on through to April with a billion and a half financing in April we would go out of April with about two billion one, eliminating the two hundred million bills that we had in there before.

H.M.JR: Just say that again, Dan.

MR. BELL: If we have a billion and a half financing in April, as was originally contemplated, and

eliminating the increase in bills and with the increase in revenue that we have got, we will go out of April with about two billion one. And then in May we contemplated another billion and a half financing and two hundred million dollars in bills.

MR. ECCLES: That is two hundred million a week?

MR. BELL: Well, it is two hundred million extra a month.

MR. ECCLES: Go from a hundred and fifty up to two.

MR. BELL: That is right. We would go out of May with about a billion and a half. Then in June we contemplated two billion dollars in financing and two hundred million dollars in bills, so eliminating the two hundred million dollars in bills, and assuming we get about three hundred million dollars in extra taxes, we ought to go out of June with about two billion dollars. In the three months that contemplates five billion dollars in financing. We will go out of June with about a two billion dollar balance.

MR. ECCLES: That is increasing bills how much in that, Dan?

MR. BELL: That isn't increasing bills at all. That is leaving bills as they now stand.

MR. ECCLES: I thought--

MR. BELL: We did have a bill program in the original set-up, but I eliminated the bills.

MR. ECCLES: That leaves them at a billion nine, doesn't it, about?

MR. BELL: Yes. Now, if you increase bills during the three months, it would decrease your June financing, which is set out here as two billion dollars.

MR. ECCLES: That contemplates a billion and a half in April of certificates, and then a billion and a half in May, and two billion in June, or five billion.

MR. BELL: That could be decreased by additional bills.

MR. ECCLES: Two hundred million of bills a week. Let's see, you paid off some of the bills during this tax period. There were some maturities.

MR. BELL: We are getting those back.

MR. ECCLES: And you will have those all back by when?

MR. BELL: April eighth.

MR. ECCLES: And then it will be a turnover of two hundred million a week?

MR. BELL: No, a hundred and fifty million.

MR. ECCLES: Well, in those figures you talked of two hundred million a week.

H.M.JR: I think he misspoke himself.

MR. BELL: No, I was speaking of extra money a month. This estimate was made up, you recall, when we had the last meeting.

MR. ECCLES: You said five billion of new financing without bills. In discussing your program I thought you were talking about getting fifty million extra a week in bills.

MR. BELL: No, sir. I was eliminating that as I went along.

MR. ECCLES: I see.