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April 7, 1942
9:12 a.m.

HMJr: Hello.

Operator: Mr. Murray is in Pittsburgh until early Friday morning.

HMJr: Let me see. Who is there that could talk for him during his absence?

Operator: I'll see.

HMJr: Let me know.

Operator: Right.

9:13 a.m.

HMJr: Hello.

Operator: Mr. Murray's office referred me to Mr. Carey, and he's out of town until tomorrow, but I have his secretary. She thought perhaps she could help you.

HMJr: All right.

Operator: Right. Go ahead.

HMJr: Hello.

S: Good morning.

HMJr: This is Mr. Morgenthau.

S: Yes.

HMJr: Who, in the absence of Mr. Murray and Mr. Carey, can I talk to on a policy matter affecting CIO?

S: Well, now, I think that you should talk to either of them. They will be calling - Mr. Carey will be calling me today, and I'd be glad to talk to him about it and have him call you.

HMJr: Well, it's something I couldn't very well do over the phone.

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S: I see. You want to see them personally.

HMJr: I want to - I'd like to see one or the other.

S: Let me see.....

HMJr: Will you be speaking with Mr. Murray?

S: Yes, I will, during the day - during the morning, I think.

HMJr: Well, would you make a point of it?

S: Yes.

HMJr: And tell Mr. Murray I'd like to see somebody on a policy matter that affects CIO and who can I see today or tomorrow that would know what was in his mind or could find out.

S: Yes. All right, I'll do that, Mr. Morgenthau, and call back your office as soon as I hear.

HMJr: Call on District 2626.

S: District 2626.

HMJr: If you please.

S: Yes, I will.

HMJr: Thank you.

S: Good-bye.

April 7, 1942
9:16 a.m.

Miss Ford: Hello.

HMJr: This is Mr. Morgenthau speaking.

F: Yes, sir. Mr. Green is out of the city today, Mr. Morgenthau.

HMJr: When will he be back?

F: I expect him tomorrow.

HMJr: Well, will you be talking to him today?

F: No, I don't think so.

HMJr: Well.....

F: What is it you have in mind.

HMJr: I'd like to see him.

F: Oh, yes.

HMJr: Do you suppose you could make an appointment for him to come over and see me - have you got that much.....

F: Authority?

HMJr: Yeah, or influence or whatever you call it.

F: (Laughs) Well, when did you want him to come, tomorrow?

HMJr: I wonder if he could come over and see me say around three o'clock tomorrow. Supposing we make it tentative.

F: Well, suppose we do that.

HMJr: I'll put him.....

F: And I'll call your office the very first thing in the morning.

HMJr: Yeah.

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F: How will that be?

HMJr: That'll be fine. I'll put him.....

F: Put it down, and if - I'll call in the morning
and either confirm it or advise you what Mr.
Green.....

HMJr: And will you call on District 2626?

F: District 2626.

HMJr: You get my own operator.

F: All right, sir, I'll do that.

HMJr: Thank you.

F: You're welcome.

April 7, 1942
9:22 a.m.

HMJr: Hello.

Operator: Leon Henderson.

HMJr: Hello.

Leon
Henderson: Hello.

HMJr: Henry speaking.

H: Yes, sir.

HMJr: How are you?

H: Pretty good.

HMJr: Leon, have you got a minute or two?

H: Sure.

HMJr: This business that our various staffs have been talking about, I think it's important enough that some of us fellows at the top should talk about it.....

H: Yes, sir.

HMJr:because we seem to be fairly far apart on it, and I don't know anything more important. This is what I had in mind: Nelson is coming over for lunch tomorrow on a Lend-Lease matter, but I could change it, and I was thinking that possibly just he, you, and I might talk over this other thing.

H: Well, I'm going to lunch with the Boss tomorrow.

HMJr: You are. Well, then that's out.

H: And - but if I can - and I've got one staff matter tonight.....

HMJr: Yeah.

H:but I'll be free tomorrow night. I've got

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lunch with Ickes on Thursday. We're getting ready on this oil rationing thing which is a honey.....

HMJr: Yeah.

H:and that's all - I've.....

HMJr: You're free tomorrow night.

H: Yeah, I'm free tomorrow night and any other night.

HMJr: Well, let me take an option on tomorrow night, and let's see what happens.

H: All right.

HMJr: But this thing - how close are you watching what the discussions have been?

H: Well, I'm spending a lot of time since I came back on them, and I'm coming to the meeting tomorrow morning.

HMJr: Yeah.

H: And we've got a number of people working on them. I've got J. M. - in fact, I was just talking with J. M. Clark now, and I'll be up to date by tomorrow morning.

HMJr: Okay.

H: All right, Henry.

HMJr: Thank you.

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April 7, 1942
2:43 p.m.

Walter
Stewart: Hello, Henry.

HMJr: How are you?

S: Very good.

HMJr: Walter, I've got one of my real financial and
fiscal headaches.

S: Yes.

HMJr: Hello.

S: Yes, I get you.

HMJr: And there's a - confidentially the Budget par-
ticularly - they want different kind of taxes
and different kind of savings, and I wondered
if by any chance you could spend Thursday with
me.

S: Yes.

HMJr: Then we could.....

S: Thursday of this week.

HMJr: Yeah. Then we could have lunch together Thursday.

S: All right.

HMJr: And I'll tell you what I'll do. I have some-
thing on this. Where - it's pretty confidential -
where could I send it to you?

S: Now, let's see. If you could get it off today.....

HMJr: I'll get it off today.

S: Right. Well, then send it to the Institute.
I'll take care of it. I'll see that it doesn't
get into anybody else's hands.

HMJr: Not to your home.

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S: No.

HMJr: To the Institute.

S: Yeah. It will be a little prompter delivery.

HMJr: Well, it'll go out tonight.

S: Right.

HMJr: And then if and when you come in Thursday, the man who can tell you as much about this as anything is George Haas.

S: Right.

HMJr: And I'll tell him to be ready.

S: That's fine.

HMJr: And - or Roy Blough - but George has the whole thing.

S: I'll go to George first.

HMJr: I tell you, it's - I don't know, it's - the whole thing runs so deep that.....

S: Uh huh.

HMJr: The idea is - well, the basic idea is to stop this inflation.

S: Uh huh.

HMJr: Well, of course, I don't suppose anything is more important as far as economics at home go.

S: Uh huh.

HMJr: But whether they've got the answer or whether we've got the answer or nobody's got the answer, I'd like you to take a clean look at it.

S: Uh huh. Right.

HMJr: And what I'm sending you is a memorandum to

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the President in which I showed him where I agreed with what they wanted to do and where I disagreed.

S: Right. Right.

HMJr: Okay?

S: All right, Henry. I congratulate you on your half per cent certificate..

HMJr: Oh, you liked it?

S: Oh, yes. My God, when I think of the background of the number of things they were trying to get you to do.....

HMJr: Yeah.

S:I think it's damn good.

HMJr: Well, I don't think the financial community yet appreciates what I'm trying to do.....

S: No.

HMJr:because I hope in about two weeks to follow this up with increase of bills.

S: Yeah.

HMJr: Then with the increase of bills, and the increase of these certificates, then we ought to have a sufficient amount of short-term stuff that the banks can move from one to another.

S: Right.

HMJr: And then we can come along with our longer issues.

S: That's right.

HMJr: What?

S: That's right.

HMJr: But - I don't know whether I've seen you since I

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told you - did you know that I had to definitely lay down the law to the Fed on this?

S: No, but I - when I saw this come out, I had a pretty accurate imagination about what a fight it had been.

HMJr: Well, the Fed Board and the Fed of New York finally said, "Well, we won't do this unless you order us to do it."

S: Oh, oh, oh!

HMJr: "And take full responsibility."

S: Well, I'll be damned!

HMJr: Hello.

S: Yes.

HMJr: They said, "You've got to order us to do this."

S: Oh, my God.

HMJr: So I said, "Well, I order you."

S: Sure. Oh, my God.

HMJr: But it got to that point.

S: Oh, my God.

HMJr: Yeah.

S: Yes.

HMJr: They said, "Unless you give us instructions that those - and take full responsibility, we refuse to do it."

S: Well, I'll be damned. Well, I think it shows a lot of good judgment, Henry.

HMJr: Well, I don't - I hope so; but this one I got this week is worse.

S: Right.

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HMJr: Yeah.

S: Right.

HMJr: Yeah.

S: All right. Well, I'll be down then Thursday morning.

HMJr: And I'll save lunch and as much time after lunch; but in the morning and what I've got to send you, I think that you can get the story.

S: I'll read that. Then I'll go to George.

HMJr: Thank you.

S: Then I'll see you.

HMJr: Thank you.

S: That's fine.

HMJr: Good-bye.

S: All right. Good-bye.



THE SECRETARY OF THE TREASURY
WASHINGTON

April 7, 1942

Dear Walter:

I am looking forward to seeing you at lunch on Thursday.

I am sending you herewith, for your confidential information, the following:

- I. ✓ A photostatic copy of the memorandum prepared by the Bureau of the Budget.
 - II. ✓ A copy of my memorandum to the President.
 - III. ✓ A series of tables, which you may or may not have seen, showing how we arrive at the so-called "gap" of \$11 billions.
 - IV. ✓ A copy of a memorandum of a meeting which took place in Mr. Paul's office yesterday.
 - V. ✓ A Department of Commerce memo on rationing.
- I would appreciate it, after you have read this material, if you would return it for my files.

Yours sincerely,

Mr. Walter W. Stewart,
Institute for Advanced Study,
Princeton University,
Princeton, New Jersey.

CONFIDENTIAL

A WAR PROGRAM TO PREVENT INFLATION

STRICTLY CONFIDENTIAL

BUREAU OF THE BUDGET
March 26, 1942
Revised

A WAR PROGRAM TO PREVENT INFLATION
INTRODUCTORY STATEMENT

The President announced in his Budget Message that "an integrated program . . . will enable us to finance the war effort without danger of inflation. This is a difficult task. But it must be done and it can be done."

The time for such an integrated program is here. Inflationary prices are not only a threat but a reality. The inflationary price rise is about to develop into the inflationary spiral.

In line with the successful development of the war production program, war expenditures increase rapidly. The \$62 billion expenditure estimate for fiscal year 1943, which was received with skepticism when announced ten weeks ago, appears now to be an underestimate. Such a sudden great increase in government expenditures must have a tremendous impact on the economy.

These large expenditures become income of wage earners, farmers, and businessmen. Incomes, especially in the lower brackets, rose during the last year as never before in this or any other country. This development is bound to accelerate. During the past eighteen months, while the war program was being launched, it was still possible to increase the supply of civilian goods at the same time. Now we have reached the stage in which conversion makes necessary the curtailment of many industries. In other lines, expansion has reached its definite limits.

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By the end of this year it is expected that between 15 and 20 million workers will produce war material and munitions. They will receive wages and will spend but they will not add to the supply of civilian goods. The discrepancy between the generation of incomes on a gigantic scale, and the curtailment in goods creates the problem which we have to face.

The initial development of such a discrepancy has already caused an increase in the cost of living of 12 percent during the last eighteen months. This increase in the cost of living in turn has induced wage demands and rises in wage rates. The increases in wage rates in turn have added to the inflationary pressure.

At this time there is pending before the War Labor Board a demand by steel workers for an increase in pay which if allowed will be the "go" sign for many other industries. General Motors workers have already announced demands for a substantial pay increase when their contract expires on April 28, 1942.

The agricultural bloc in the meantime is trying to assure the farmers still further increases in prices and parity payments.

A tax bill providing stiff levies on profits and incomes is pending before Congress. Interested groups exert all possible pressure for emasculating the tax program. They may be successful.

Everyone admits that full conversion of the country to war makes sacrifices imperative, but each group tries to shift the sacrifices to others.

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The administration is trying to deal with the situation by a variety of unrelated measures. Each measure encounters a combination of interests which is able to impede or defeat the specific program. The administration thus is pushed into the defensive. Such a condition may undermine public morale and seriously impair the war effort.

Bold and concerted action is required. Inflation cannot be stopped as long as wage increases, as well as rising government expenditures, create additional purchasing power. Wage increases cannot be stopped as long as prices rise. The price rise cannot be stopped unless part of the rapidly increasing purchasing power is absorbed by fiscal measures. Fiscal measures cannot be effective as long as businessmen, wage earners, and farmers can make up for taxes by increasing their incomes. Only simultaneous action on all fronts can stop the inflationary spiral. Such action must impose sacrifices, but the whole program will be greeted with enthusiasm and relief if it is made convincingly clear that all interests are restricted at the same time and with the greatest possible fairness in distribution of the war burden.

Such a program must contain only measures absolutely necessary for the objective. No one should have reason to say that the administration is using the emergency to put over extraneous legislation under shotgun pressure.

An integrated anti-inflationary program presented in the

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most dramatic way will allay class bickerings and will avert the most inequitable of situations for the war effort and the postwar period, i. e., inflationary price rises. Such a program will electrify the country; eliminate pettifogging; fortify the war spirit; give the offensive to the administration; and show to the American people that on this home-front the sickening slogan will not again apply "too little and too late."

A WAR PROGRAM TO PREVENT INFLATION

(Tentative Outline)

INTRODUCTION

1. There is urgent need for immediate comprehensive action to stop inflation. The need is evidenced by extensive and impending price and wage developments, together with the rapid increase in war expenditures, probably in excess of budget estimates.
2. Inflationary pressure is growing. Its prospective magnitude is measured by the extent to which there will be an increase in consumers' demand - i.e., in the purchasing power that consumers will seek to spend - over the available supply of consumers' goods measured at present prices. The amount of inflationary pressure, if revenue recommendations of the Budget Message are enacted but no other action is taken, may be about \$20-25 billion (estimate to be verified). Even assuming early wage and price freezing, the inflationary pressure will be about \$10-15 billion for the fiscal year 1945.
3. The inflationary spiral can be curbed only by a comprehensive and integrated program attacking all inflationary factors at the same time. All the practicable methods of meeting the problem are interdependent. No one step will suffice; each is necessary to insure success for the others.
4. The program presented here is intended to lapse after the end of the war. The major steps in this program are enumerated below in four main categories - Prices, Wages and Salaries, Fiscal Measures, and Other Controls.

A. PRICES - RETAIL, WHOLESALE AND PRODUCERS'

1. Freeze price ceilings generally at market as of April 5.
(Certain agricultural commodities which cannot be frozen under current legislation at less than 110 percent of parity are covered below.)
2. Make provision for subsequent alignment of retail, wholesale and producer prices, principally by holding retail prices rigid and squeezing down distributors' and producers' prices, but partly by adjustment of retail prices in special cases.
3. Provide for stimulating production through subsidies where production would otherwise be inadequate.
4. Repeal at once the present statutory restriction against freeing the price of agricultural commodities below 110 percent of parity.

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5. Immediately thereafter place price ceilings ^{at market} on remaining agricultural commodities as permitted in 4. except at the farm.
6. With respect to prices at the farm
 - a. Place ceilings at market on commodities with prices above parity.
 - b. For farm prices now below parity proceed as follows:
For basic commodities place ceilings at parity as of April 15, and
For nonbasic commodities place ceilings at parity only if prices reach parity.
7. Price ceilings should be accompanied by price supporting devices as follows:
For wheat, permit price support or subsidy in war bonds up to parity for domestic human consumption and 50 percent of parity for remainder of crop.
For cotton and tobacco, permit price support up to parity for domestic consumption and lend-lease, and 50 percent of parity for remainder of crop.
For corn, permit price support up to 85 percent of parity and remove acreage restrictions.
8. Remove the restriction, now in H.R. 6709, on sale of government-held stocks of farm products at less than parity.
9. Legislative authorization for freezing all rents should be obtained.
(Measures designed to freeze low-rent residential rents in important areas are in preparation by C.P.A.)

B. WAGES AND SALARIES

1. Freeze all basic wage and salary rates as of April 5, excepting rates below 40 cents an hour.
 - a. Under 40 cents an hour, encourage adjustments needed for health and efficiency, but avoid taking the position that all wage rates below 40 cents should necessarily move up to 40 cents.
 - b. Permit individuals to continue to qualify for higher wage and salary rates through promotion or transfer to higher rated jobs.

- c. In exceptional cases, through administrative control, permit upward adjustment of basic wage and salary rates above 40 cents an hour in war industries when necessary to obtain or retain an adequate supply of labor.
2. Hours of work and overtime:
 - a. Retain the 40-hour week provisions of present law but declare by proclamation that 48 hours shall be the normal work week in war industries. The work week for industry in general should be increased as rapidly as possible to a 48-hour basis.
 - b. In all cases in which payment of time and one-half above 40 hours is made, provide that the extra amount above straight time shall be paid only in war bonds of a special series which cannot be redeemed until after the war.
 3. Encourage 3- or 4-shift operation; approve payment of appropriate differentials for night work when necessary to secure labor for 24-hour operation.
 4. Declare that existing arrangements for collective bargaining between employers and employees should be maintained for the duration of the war. (?)

C. FISCAL MEASURES

1. Support the pending \$7 billion tax proposals of the Treasury. In particular the profit taxes as proposed are an essential part of a comprehensive anti-inflationary program. Request stiffening of excess profits tax in lieu of profit limitation.
2. Add to the present tax bill fiscal measures designed to reach mass purchasing power.

Alternative A: Increase the personal income tax yield by about \$2 billion per annum above the pending Treasury proposal, and accelerate collections through the following provisions:

 - a. Reduce exemptions to \$1,000 for married and \$500 for single persons; and the deduction for a dependent to \$250. (Under present law these are \$1,500, \$750, and \$400.)
 - b. Tax the first \$500 of net taxable income at 12 percent; the next \$500 at 16 percent; then follow the rates proposed by Treasury.
 - c. Require withholding of the tax by employers and others, starting July 1, at the rate of 12 percent.

- d. Substitute compulsory borrowing on a sliding scale for tax payments in lower income groups. For example, give war bonds equal to 80 percent of income tax liability to each taxpayer with less than \$1,000 net taxable income; for taxpayers with higher incomes, let the bonds equal a declining percentage of the tax liability; for incomes of \$10,000 (?) or more, no bonds would be given.

Make the bonds payable over a ten-year period after end of war. Provide machinery for immediate redemption of war bonds in cases of hardship.

Alternative B: Leave Treasury income tax proposal unchanged. Institute a separate Universal Saving system for all individuals with incomes above \$500 (single), \$1,000 (families). Withhold 5 percent of whole income, less a credit of \$15 for each member of family; give war bonds for amounts withheld. (Adjust for borderline incomes).

3. Introduce a retail sales tax with exemption of certain life necessities, such as milk, bread, and medicines, at a rate of 2 percent beginning July 1, 1942, of 5 percent January 1, 1943.
4. Recommend early legislative consideration of the proposed \$2 billion Social Security Program.

D. OTHER CONTROLS

1. Rationing.
2. Direct control of:
 - a. Inventory accumulation.
 - b. Construction of business plant and equipment.
 - c. Residential housing.
3. Credit
 - a. Limit instalment controls to non-rationed goods.
4. Further measures for facilitating production.

STRICTLY CONFIDENTIAL

April 3, 1942.

My dear Mr. President:

You asked me to let you have tonight a memorandum on the cost of living and what ought to be done about it. I am enclosing such a memorandum, together with a chart in which we have tried to show under three different assumptions approximately how the estimated deficit of \$39 billions for the coming fiscal year may be financed.

Everybody in the Treasury is in agreement that we should not leave a stone unturned to keep the cost of living as nearly as possible at the present level. You will notice in the plan proposed we have not limited ourselves to fiscal measures for we do not believe that fiscal measures alone are adequate to meet the situation. If we adopt a program of strict rationing, which we in the Treasury strongly favor, the amount of money available for Federal borrowing will be greatly increased and it will come from sources that will not be inflationary. This will very greatly modify the divisions of the chart here presented.

There are radical points of difference between our conclusions and those of Harold Smith's group, as you will notice by reading the annexed outline and discussion. We feel strongly that it would be a mistake to yield to the clamor for a sales tax. Rather we think the revenue bill will contain a sales tax unless resistance to a sales tax is greatly intensified. One very cogent reason against consenting to a sales tax is that we think the effect of recommending a sales tax would be that Congress would use this as an excuse to make drastic cuts in the Administration's proposals for increases in personal and corporate incomes and profits, with the result that we should get no more revenue but simply have shifted the source of revenue to the lower income groups.

We object on the same grounds to lowering the personal exemptions and we have in mind that the typical American

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family does not save on an income of \$1250 a year or less, and that a man with a \$750 income already pays \$139 a year in Federal, state and local taxes.

We also, as you will note, are in strong disagreement on the proposal to freeze wages, which we think unnecessary, impractical and exceedingly dangerous.

We believe that the system of voluntary savings through the sale of war savings bonds and stamps should be continued and should not be complicated or destroyed at this time by any compulsory savings plan. We are inaugurating a system of quotas which we believe will result in pushing up the sales of war savings bonds to a billion a month by the end of July. We will know between now and July 1 whether we can reach this result. Both Mr. Smith's group and ourselves want to get another \$5 billions from savings. We feel that we have an excellent chance to get it through the volunteer method and that that method is much to be preferred.

The staffs of the Budget, OPA and the Treasury will work continuously from now until Wednesday morning when we will meet again and see if we cannot get a closer meeting of the minds. The fact that you stated at Cabinet that you did not propose to do anything for three weeks certainly should give all of us time to give you a comprehensive plan.

Sincerely yours,

Secretary of the Treasury.

The President,

The White House.

cc: Harry Hopkins
Harold Smith
Lauchlin Currie

LHC:pm

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April 3, 1942

A PROGRAM TO CONTROL THE COST OF LIVING

During the coming fiscal year there will be at least \$10 to \$15 billions of money in the pockets of the people of the United States with nowhere to go. What can we do to keep that surplus purchasing power from driving up the cost of living?

Things That Should Be Done Now

- (1) Freeze the price ceilings of consumer goods, services and rents at current levels.

This should be the first step. It is not in itself enough, but is an essential part of a complete program.

- (2) Urge the speedy enactment of the entire Administration tax program.

This \$7.6 billion program is the most that we can expect to get at this time. It is a balanced program which should have substantial effect in restricting consumer demand.

- (3) Enlarge scope of social security benefits and levy additional social security taxes as proposed by the President.

This will reduce consumer demand particularly in the lower income levels without having adverse effects to be expected from other devices dipping into incomes close to the subsistence level.

- (4) Intensify the drive for sale of war savings bonds introducing quota features to raise an estimated \$12 billions in fiscal year 1943.

This will have a substantial effect in reducing consumer purchasing power because the big increase is expected to come from the wage earner through the newly developed plan of voluntary payroll savings.

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(5) Increase surveillance over credit and impose further restrictions on installment credit, speculative loans, loans for consumption purposes, and all credit for non-productive purposes.

The \$9 billions of outstanding consumer credit should be reduced by further restrictions of credit for consumer purposes.

(6) Increase scope of rationing to cover as rapidly as possible all consumer goods where shortages exist or are expected to develop.

Rationing of goods on a broad scale is clearly inevitable if there is to be anything like a fair distribution of consumer goods which will be available if the war demand intensifies and existing stocks are depleted. Rationing is fair. It makes available the limited supplies of necessities of life to poor and rich alike.

(7) Give immediate consideration to a plan for restricting or rationing total expenditures which individuals may make for consumption goods, using income as a guide as in progressive surtax brackets.

This would not be a substitute for all rationing of goods, but it would eliminate the need for the specific rationing of many commodities. Administrative problems make this a matter for continued study rather than for immediate action.

Things That Should NOT Be Done

(1) A general retail sales tax should be strongly opposed.

The lower income groups are already disproportionately taxed. The sales tax would upset price ceilings and immensely increase the burden of tax administration. Unless active steps are taken, a general sales tax will be substituted in the current tax bill for part of the income taxes now proposed.

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(2) Income tax exemptions should NOT be lowered.

Personal exemptions have been lowered twice in the last two years and the increase in the cost of living is in effect lowering them further month by month. Certainly the already heavy taxes on the low-income group should not be further increased until the various loopholes amounting to about \$1 billion in revenue are closed by the Congress.

(3) NO form of compulsory saving should be enacted or proposed at this time.

It would probably destroy completely the voluntary savings plan now under way, at least so far as the lower income groups are concerned. It might well result in forcing immediate redemption of a very large proportion of the \$8 billions worth of United States savings and defense bonds now outstanding.

(4) Proposal to freeze wages should be strongly resisted.

It would have a disastrous effect on morale, would be grossly unfair, and would be discriminatory against wage employees. It is unnecessary if other steps are taken to stabilize the cost of living.

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A PROGRAM TO CONTROL THE COST OF LIVING

(Discussion of outline)

Few effective steps have yet been taken to deal with the rising cost of living. Tax increases at the rate of approximately five billions a year have been imposed but prior to March 1942 were only partially reflected in funds available for consumer expenditure. Some price ceilings have been imposed but their number and importance have not been such as to affect the cost of living substantially. Consumer rationing is not yet in effect. Action to control credit has not yet been fully developed from the standpoint of inflation control. The prospect of shortages and higher prices probably has done more to stimulate price increases than has been done to counteract them.

I. Things that should be done now.

1. Price ceilings

Most of the things that should be done now are for the purpose of reducing consumer demand. Along with all of these it is important that the cost of living be stabilized by fixing price ceilings at current price levels for all goods and services. In the absence of general price ceilings the price situation will become very confused. Profiteers will take advantage of temporary shortages and "runs" on goods for which shortages and higher prices are anticipated will be stimulated.

It is too much to expect that prices can be rigidly frozen with no flexibility whatever. There are maladjustments among prices which must be corrected. Furthermore, some prices must be allowed to rise if goods are to be produced at all, unless extensive subsidization of producers is to be provided.

However, if appropriate measures are taken to reduce consumer demand it should be possible to set price ceilings in such a manner that the cost of living will not rise more than perhaps 5 percent a year. Experience has shown that price control can be effective. The Office of Price Administration's analyses of the Bureau of Labor Statistics'

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wholesale price index shows almost complete absence of rise of formally controlled prices between March and December, 1941, whereas uncontrolled prices have risen from 100 to 117 percent.

2. Treasury tax program

The Treasury program now before Congress proposes tax increases to produce annual revenue in excess of 7 billion dollars. It is a balanced program based upon ability to pay and includes drastic increases in individual income tax rates; in corporate taxes; estate and gift taxes; and in excise taxes on luxuries and scarcity goods. This program when enacted should have a substantial effect in restricting consumer demand and thus controlling the cost of living. It will not have any substantial effect until it is enacted, since discussion in Congress roams over a wide field and leaves the greatest uncertainty as to the character of the program which will be written into law.

Any substantial changes in this program proposed by the Administration would further greatly confuse the situation; delay enactment; and on these accounts materially increase during the interval inflationary tendencies. There is little or no prospect of increasing the tax yield beyond the amount asked for in the Treasury program. The prospect is rather that any demand for a change in the program now would only result in a tax bill with lowered exemptions and a sales tax at the expense of the proposed corporate and individual surtaxes.

3. Social Security Program

The enlargement of social security benefits, coupled with an increase in social security taxes in the amount of approximately 2 billion dollars, would have a decided effect in reducing consumer demand; particularly in the lower income levels; without having adverse effects to be expected from other devices for dipping into incomes that are close to the subsistence level. Congressional consideration and passage of the program should be pushed aggressively.

4. Voluntary war savings

The possibilities of additional voluntary savings for the purpose of restricting consumer demand through the sale of war savings bonds have not been by any means fully exploited. An

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effective organization has been built and the experience of December and January indicates clearly that by pursuing payroll allotment and quota methods sales can be increased to a level of approximately one billion dollars a month, or an increase at the rate of approximately five billion dollars a year, which will have a very decided effect upon consumer purchasing power and should be a material factor in improving the price situation.

5. Credit restrictions

There are now outstanding some 9 billion dollars of consumer credit. Much can be done to cut down this source of consumer buying by extending controls already authorized by law. Installment selling of consumer's goods, book credit, loans for consumption purposes -- all of which have the effect of increasing the demand for goods and thus contributing to a rise in the cost of living -- can be drastically curtailed. Bankers of the nation have shown great willingness to cooperate with the Government and it is believed they will be willing to enlist in an effort to impose credit controls that would help bring about the desired contraction of consumer credit.

6. Rationing of goods

We have hardly begun to feel the impact of shortages in consumer goods. This impact has been delayed by the availability of large inventories and the fact that war production has not yet by any means reached its full peak. Rationing of goods on a broad scale is clearly inevitable if there is to be anything like a fair distribution of the supply of consumer goods that is to be available as the war demand intensifies and existing stocks are depleted. Rationing is equitable. It imposes the sacrifices of war on poor and rich alike. Taxes and other fiscal measures used without rationing leave the rich free to consume as they please while the poor bear the burden of the shortages.

The rationing program must move rapidly. The difficulties are admittedly great, but the job must be faced. In establishing the machinery for rationing it is probable that time could be saved and duplication avoided by the extensive use of existing agencies of the Government. These could be supplemented by the much wider use of voluntary effort now frequently employed on enterprises that are mere outlets for patriotic energy but contribute very little to the war effort.

7. Total expenditure limitation or rationing

It should be possible very greatly to simplify the problem of rationing by an over-all plan of limiting or rationing total expenditure by individuals. This could almost certainly be applied to the total amount of money spent on commodities that are necessities of life and possibly to the money spent on all goods and services for which shortages are anticipated. Expenditure rationing would have the double effect of conserving supply and diverting funds, which would otherwise go into consumer expenditure, to investment in Government securities. Administrative problems make this a matter for continued study rather than for immediate action.

II. Things that should not be done now.

1. No general sales tax

The proposal to obtain a substantial or even major proportion of additional Federal revenue from a general retail sales tax is a proposal to increase the tax burden on the poor and hold down the burden on the well-to-do. The lower income groups are already disproportionately heavily taxed through Federal income taxes and more especially through state and local taxes that violate the principle of ability to pay.

The general retail sales tax has other disadvantages and dangers. It would upset price ceilings and induce well-branded goods for price increases. Its apparent simplicity is deceptive for the burden of administration and collection would be immense. It would introduce a form of tax into our tax structure that would be likely to nullify many years of effort to accomplish an equitable distribution of the tax burden.

Unless active steps are taken, a general sales tax will be added as part of the current tax bill, and the revenue anticipated from it used as an excuse for lowering the proposed tax rates on corporations and individuals.

2. No lowering of personal exemptions

The personal exemptions of the income tax should not be lowered at this time. They have been lowered twice in the last two years and the increase in the cost of living is in effect

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lowering them further month by month. Certainly the already heavy taxes on the low-income group should not be further increased until the various loopholes amounting to about one billion dollars in revenue are closed by the Congress.

3. No compulsory saving

The introduction of any scheme of compulsory saving at this time would probably destroy completely the voluntary saving plan now under way, at least so far as it affects the lower income groups. The voluntary plan has not been given a sufficiently thorough trial to justify its abandonment. As previously indicated, it is being rapidly developed and expanded.

There are at present outstanding United States savings and defense bonds having a total redemption value in excess of eight billions of dollars. A compulsory savings plan might well have the result of forcing immediate redemption of a very large proportion of these outstanding securities and to the extent that any such redemption occurred it would nullify the effect of compulsory saving and other efforts to restrict consumer expenditure.

Any compulsory savings plan, to be effective, must necessarily be on a very large scale. Such a plan should not be adopted unless and until the voluntary system, combined with other measures has proven inadequate.

4. No wage freezing

Besides being grossly inequitable, any attempt by statute to freeze wages at existing levels would certainly have a disastrous effect on public morale. Labor organizations have led a long and fairly successful fight against the treatment of human labor and personal service as a commodity. A proposal to freeze wages regards labor as a commodity and proposes to discriminate against wage employees by placing an arbitrary ceiling on their income and by failing to place similar ceilings on incomes derived from other forms of personal services, as incomes from professions, incomes from trade and the higher levels of personal service incomes from industry. *of fair*

Wage freezing is an impractical proposal. It would probably not achieve its objectives since a multitude of exceptions would have to be made for special situations.

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Wage ceilings would have to be adjusted to make additional allowances for those who are now underpaid, to take care of changes in the cost of living, to meet urgent demands of war production industries, and to prevent an undue amount of labor shifting from occupation to occupation.

Furthermore, if the cost of living is stabilized the principal pressure for wage increases will have been removed. The mood of labor to improve its position, which was apparent in the early stages of the defense program, has largely disappeared. Labor has given up the right to strike. National machinery has been established to control wages. There seems to be no need for setting a ceiling on wages as a method of stabilizing the cost of living.

The sound objectives of wage freeing can be attained by improving existing machinery for wage adjustments and through efforts to accomplish a better distribution of labor supply through increased activity on the part of Federal and local agencies already set up for this purpose. Wage demands up to the present moment have not been excessive nor has labor been unduly favored in the increased industrial activity caused by the war program. Labor organizations have gone to great lengths to cooperate in the war effort. In this situation there seems nothing to warrant a proposal of extremely doubtful value at best which could not be interpreted otherwise than as a slap in the face of labor.

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Table 1

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

Fiscal Year 1943

(Based on a national income of \$115 billions and a rise in the cost of living of about 13% from December 1941)

(In billions of dollars)

Flow of Goods and Services	Application of Income made available (Under existing habit patterns and pressures)
<p>A. To be purchased by Government:</p> <p>1. Defense expenditures:</p> <p>a. Total..... 56.6</p> <p>b. Less: Prepayments, land and offshore, etc..... 2.5</p> <p>c. Net defense expenditure..... 54.1</p> <p>2. Other public expenditures:</p> <p>a. Federal..... 6.1</p> <p>b. State and local..... 7.8</p> <p>c. Total other public expenditure..... 13.9</p> <p>3. Total Government..... 68.0</p>	<p>A. Available for Government use:</p> <p>1. Assured - Taxes:</p> <p>a. Existing business taxes 1/..... 15.7</p> <p>b. Existing personal taxes..... 4.8</p> <p>c. New business and personal taxes 2/..... 7.0</p> <p>d. Total taxes..... 30.5</p> <p>2. Potential - For buying Government securities, directly or indirectly (Unabsorbed savings, depreciation and other allowances):</p> <p>a. Unabsorbed personal saving 3/..... 15.5</p> <p>b. Social security net accumulation..... 4.0</p> <p>c. Unabsorbed business saving 4/..... .3</p> <p>d. Reserves for existing taxes 1/..... 1.7</p> <p>e. Reserves for new taxes..... 0.5</p> <p>f. Unabsorbed depreciation and other allowances 1/ 5/..... 4.5</p> <p>g. Total..... 26.5</p> <p>3. Total income available for Government use..... 57.0</p>
<p>B. To be purchased by private persons:</p> <p>1. Private capital expenditures:</p> <p>a. Plant and equipment..... 5.5</p> <p>b. Inventories:</p> <p>(1) Increase in volume -.5</p> <p>(2) Increase in value.. 1.5</p> <p>(3) Total..... 1.0</p> <p>c. Foreign balance..... -.5</p> <p>d. Residential housing construction.. .5</p> <p>e. Total..... 6.5</p> <p>2. Consumption goods and services:</p> <p>a. Durables..... 3.5</p> <p>b. Non-durables and services..... 64.5</p> <p>c. Total..... 68.0</p> <p>3. Total private..... 74.5</p>	<p>B. Available for private use:</p> <p>1. Income absorbed by private capital expenditures:</p> <p>a. Absorbed depreciation and other allowances 1/ 5/..... 4.5</p> <p>b. Absorbed business saving 4/..... 1.5</p> <p>c. Absorbed personal saving 3/..... .5</p> <p>d. Total..... 6.5</p> <p>2. Income available for consumer spending..... 79.0</p> <p>3. Total income available for private use..... 85.5</p>
C. National gross product plus inventory revaluations..... 142.5	C. National gross product plus inventory revaluations..... 142.5

February 4, 1942

- 1/ Not included in national income concept used by Department of Commerce.
- 2/ In estimating personal and business saving, the revenue to be obtained from new taxes is arbitrarily divided 1/3 each from (1) corporation income and excess profits taxes, (2) excise taxes, and (3) individual income, estate and gift taxes.
- 3/ Total personal saving, exclusive of social security net accumulation, is estimated at \$15.0 billions.
- 4/ Total business saving is estimated at \$1.8 billions.
- 5/ Total depreciation and other allowances is estimated at \$9.0 billions.

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

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

(In billions of dollars)

Sources of funds	Distribution between types of Government securities											
	Total amount	New Savings bonds		New security to absorb long-term non-market funds		Special tax notes	Marketable securities					
		Series	to absorb deferred and expenditures	to absorb non-market funds			Sold to individuals	Sold to corporations other than banks and insurance companies	Sold to insurance companies	Sold to banks 1/	Subtotal for marketable securities	
I. Current savings and accumulations estimated on the basis of existing habit patterns and pressures (based on a national income of \$115 billions and a rise in the cost of living of about 10% from December 1941):												
1. Personal saving.....	15.5	7.0	1.1	.9	.2	-	.2	.2	1.9	4.0	6.3	
2. Social security trust funds....	4.0	-	-	-	-	4.0	-	-	-	-	-	
3. Business saving.....	.3	-	.1	.1	-	-	-	-	-	.1	.1	
4. Corporate tax accruals in excess of tax payments:												
(a) Existing taxes.....	1.7	-	.2	-	.4	-	-	-	-	1.1	1.1	
(b) New taxes.....	.5	-	-	-	.2	-	-	-	-	.3	.3	
5. Excess of bookkeeping charges for depreciation and similar items over actual outlays therefor.....	4.5	.2	1.2	.2	-	-	-	.2	-	2.7	2.9	
6. Net surplus of State and local revenues over expenditures.....	-	-	-	-	-	-	-	-	-	-	-	
7. Total from current savings and accumulations.....	26.5	7.2	2.6	1.2	.8	4.0	.2	.4	1.9	8.2	10.7	
II. Funds available only at the cost of an additional price rise:												
1. Funds derived by converting old idle balances into active balances through purchase of Government securities:												
(a) By individuals.....	3.0	1.5	.2	1.2	.1	-	-	-	-	-	-	
(b) By corporations.....	1.5	-	1.0	.2	.3	-	-	-	-	-	-	
(c) Total from old idle balances.....	4.5	1.5	1.2	1.4	.4	-	-	-	-	-	-	
2. Residual balance which will have to be borrowed from banks..	8.8	-	-	-	-	-	-	-	-	8.8	8.8	
3. Total under Group II.....	13.3	1.5	1.2	1.4	.4	-	-	-	-	8.8	8.8	
III. Total borrowing according to the budget (but this will have to be increased as a result of prices rising even higher than allowed for if borrowing listed under Group II is used).....	39.8	6.7	3.8	2.6	1.2	4.0	.2	.4	1.9	17.0	19.5	
IV. Total borrowing.....												

1/ Includes securities sold to Federal Reserve Banks.

March 5, 1942

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ESTIMATED SOURCES OF FUNDS TO FINANCE THE BUDGETARY DEFICIT AND FEDERAL AGENCIES FINANCED WITH TREASURY FUNDS

Fiscal Year 1943

(Dollar figures are billions)



Inflationary borrowing

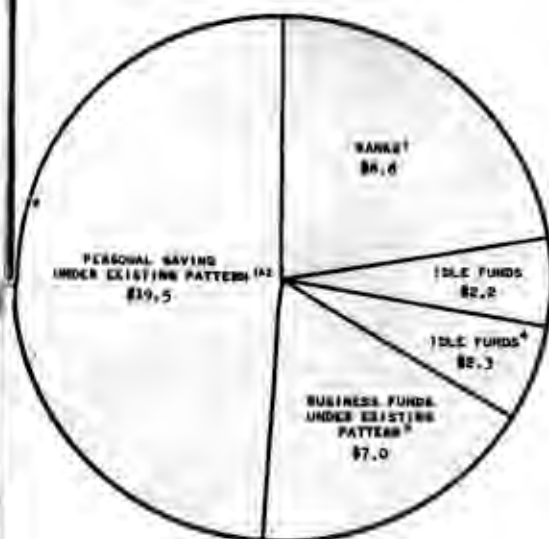


Noninflationary borrowing

Assumption 1

Existing habit patterns and pressures

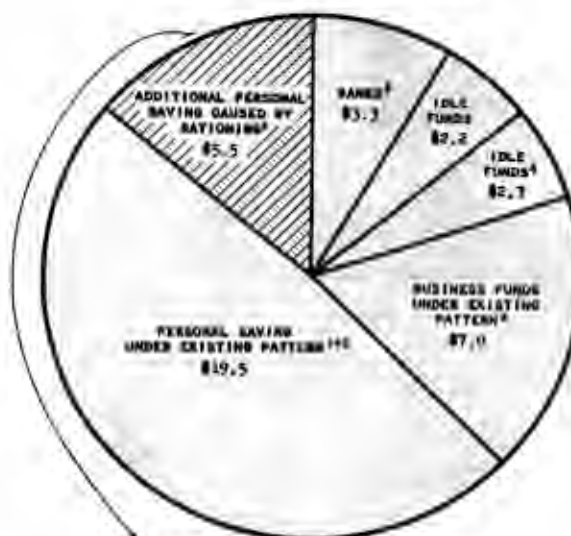
Noninflationary borrowing.....\$26.6
Inflationary borrowing.....11.0
Total borrowing.....\$37.6



Assumption 2

Commodity rationing and price fixing assumed to be 50% effective in diverting excess consumer income to personal saving

Noninflationary borrowing.....\$34.3
Inflationary borrowing.....5.5
Total borrowing.....\$39.8

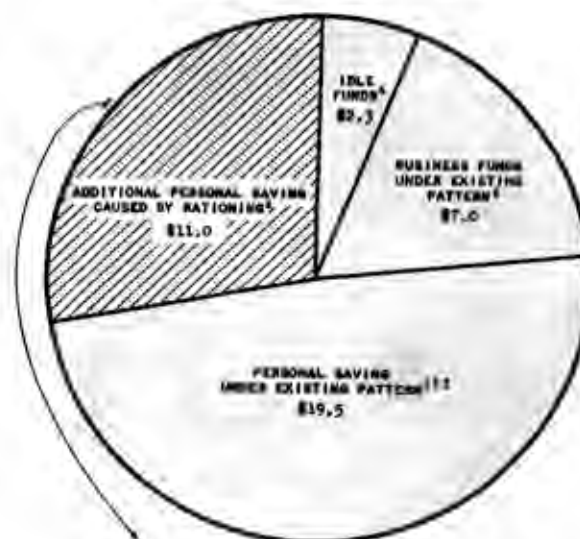


\$5.5 BILLIONS OF ADDITIONAL PERSONAL SAVING BROUGHT ABOUT BY RATIONING (INDICATED BY CROSS HATCHED AREA) HAVE REPLACED AN EQUAL AMOUNT OF INFLATIONARY BORROWING FROM BANKS.

Assumption 3

Either (a) commodity rationing and price fixing assumed to be 100% effective or (b) purchasing power rationing

Noninflationary borrowing.....\$39.8
Inflationary borrowing.....-
Total borrowing.....\$39.8



\$11 BILLIONS OF ADDITIONAL PERSONAL SAVING BROUGHT ABOUT BY RATIONING (INDICATED BY CROSS HATCHED AREA) HAVE REPLACED AN EQUAL AMOUNT OF INFLATIONARY BORROWING FROM BANKS AND IDLE FUNDS.

NOTES: BASIC ESTIMATES ASSUME A NATIONAL INCOME OF \$115 BILLIONS AND A RISE IN THE COST OF LIVING OF 10% FROM DECEMBER 1941, BUT THIS SITUATION WILL ONLY OCCUR IF INFLATIONARY BORROWING IS NOT USED.

1. INCLUDES SOCIAL SECURITY.

2. INCLUDES INDIRECT BORROWING (SUCH AS FROM BANKS AND INSURANCE COMPANIES) AS WELL AS DIRECT BORROWING FROM THESE SOURCES.

3. INFLATIONARY BORROWING ONLY. ADDITIONAL FUNDS WOULD BE BORROWED FROM BANKS BUT WOULD BE OFFSET BY REPAYMENTS OF LOANS AND ACCUMULATION OF SAVINGS IN THE FORM OF BANK DEPOSITS. THESE ADDITIONAL FUNDS WOULD, THEREFORE, COME ULTIMATELY FROM NONINFLATIONARY SOURCES.

4. TO OFFSET EXPENDITURES FOR GOODS AND SERVICES NOT PART OF THE CURRENT NATIONAL INCOME.

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Memorandum of the Conference in
Mr. Paul's Office, April 6, 1942

The group from the Budget, War Production Board, O.P.A., and Agriculture, are of the opinion that a tax and compulsory savings program such as is indicated below would yield approximately \$6 1/4 billion during fiscal 1943. They believe that amount raised in the manner indicated, together with the general program indicated below, would be adequate to prevent inflation in the initial period.

If \$1/2 billion additional a month could be raised during the first 6 months of fiscal year 1943 through an aggressive program of voluntary savings in the lower income groups, such as the Treasury is planning, the amount raised obviously would be equivalent to the amount that they wish to raise through additional taxes and compulsory saving. But the group feel that the raising of \$6 1/4 billion that way would not do the trick because they could not get the other elements in the program, chiefly freezing prices and rents, unless taxes on the lower groups are increased.

They also definitely believe that it would be impossible to secure through anti-inflationary voluntary savings from the low income groups an additional \$1/2 billion a month by July, unless the methods used under the term "voluntary" were actually coercive to a certain extent. Finally, even if it were possible to raise an additional \$1/2 billion a month through the Treasury program, they are strongly opposed to a so-called voluntary method of raising the money which in fact would be coercive as compared with outright compulsory saving.

The group from the Budget, War Production Board, O.P.A., and Agriculture recommend the following general program to prevent an inflationary rise in prices:

1. Freezing prices and rents;
2. Freezing wage rates and salaries;
3. Drastic restriction of consumer credit;
4. Specific rationing;

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5. The \$2 billion additional from social security levies (otherwise additional from forced savings).

6. The present tax program modified to raise another \$6 1/4 billion is as follows:

1. Lowering income tax exemptions to \$500 for individuals, \$1,000 for married persons, and \$250 for each dependent, which would raise	\$2 billion
2. Compulsory saving at the rate of 5% on income with single income earners of \$500 or less and married income earners of \$1,000 or less excluded, which would raise	\$3 billion
3. A war consumption tax of 5% to take effect January 1, 1943 for the second half of the fiscal year, which would raise	\$1 1/4 billion
4. 100 percent excess-profits tax	<u>1/</u>
5. Confiscation of all income above \$50,000 or \$100,000	<u>1/</u>
Total	<hr/> \$6 1/4 billion

The group feels that this integrated program, including the raising of the additional \$6 1/4 billion in fiscal 1943, is sufficient to prevent an inflationary rise in prices for the initial period of that year, and considers the recommendations as an integrated program that should be adopted as a whole.

1/ No estimate.

DEPARTMENT OF COMMERCE

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE

WASHINGTON

CONFIDENTIAL

March 12, 1942.

DIVISION OF RESEARCH AND STATISTICS

RATIONING

By - Arthur R. Upgren and Richard M. Bissell, Jr.

Purpose of the Memorandum

The purpose of this memorandum is three-fold. It is (1) to indicate the function of a broad system of rationing as a device for controlling expenditure and preventing inflation as well as for equating supply and demand in particular markets; (2) to develop the general principles which should determine the form of the rationing system; (3) to outline a set of provisions which would establish a general rationing system embodying the principles referred to above.

The central economic problems facing the Federal Government at the present time are: (1) to maximize war production by the diversion of productive resources from civilian activities to the manufacture of war goods; (2) to secure an equitable distribution of the available supplies of consumers goods, which will diminish steadily as the first problem is successfully solved.

As conversion proceeds and as war production expands, scarcities of consumers goods in relation to the demand for them develop from the following circumstances: (1) civilian production must necessarily be reduced or halted in those industries whose facilities are susceptible of conversion; (2) even where facilities (and labor) continue to be available, raw materials essential for the production of civilian goods may become unavailable for this purpose; (3) the curtailment of imports and the increase in lease-lend shipments reduce the supplies of consumers goods available for the domestic market; (4) the large increase in consumers incomes would create scarcities even if supplies of all consumers goods remain constant; (5) the curtailment of expenditure on those goods of which the supply is reduced or disappears enormously increases the demand for those that remain abundant in absolute amounts.

There are two objectives to be realized by rationing. First, the immediate purpose of controlling the sale of any given commodity is to limit consumers purchases to the supply that will be available, given the price set from time to time by the Price Administrator, i.e., it is to equate supply and demand in the particular

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market under consideration. Second, the broader purpose that can be achieved by the widespread application of rationing is that of limiting consumers expenditures on all those scarce commodities which are important enough so that their prices are subject to control, and thus compelling consumers either to save larger proportions of their income or to spend them in such a way that the distribution of staple consumer goods will not be disturbed.

The Availability of Rationing to Reinforce Fiscal Policies.

To meet the well known price problem that is developing from the growing imbalance between a diminishing goods supply and an expanding purchasing power there is wide agreement upon the desirability of adopting rigorous fiscal policies (taxation and borrowing savings to drain away excesses of purchasing power) to avoid a rise in prices that could otherwise only be controlled by price-policing.

In the abstract the problem of coping with an impending inflation is simple. The weapons consist of taxation, the borrowing power, and, perhaps, the power to compel saving. Yet, despite the universal agreement upon the efficacy of these devices for preventing inflation, recent evidence from the experience of other countries reveals that the problem is never, in fact, solved in this way. Rather, the weight of the evidence (especially from Britain and Germany) is in support of the view that the major and primary responsibility for the avoidance of inflation falls upon those endowed with the power of rationing. This they may not like, and it is not intended to suggest that fiscal policy can not and should not supplement the activities of the rationers but they must recognize that they can and probably will perform this function. When the power to control prices is granted, and when the difficulties in the way of developing an adequate fiscal policy are so great, only effective broad use of the power to ration can create the conditions necessary for effective price control.

There is yet to be provided a convincing case of any country in war adopting fiscal policies to the degree necessary to maintain anything approaching substantial stability in prices. In contrast there is considerable evidence that reasonably satisfactory fiscal measures can be adopted only if those empowered to ration have first done their job well.

This statement rests upon the evidence that whatever stability of prices has been attained in Germany and Britain, for example, has been secured far more through effective use of the rationing weapon than by fiscal measures. In fact such fiscal measures

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probably could not have been as effective as they may have been except for the prior exercise of rationing powers. Stated in another way, dictatorships no less than democracies have found the imposition of an adequate fiscal policy, initially, almost impossible unless there was first created by rationing an excess of idle purchasing power.

In Germany, with a government of great and effective centralized control, only 50 percent of the war budget has been raised by taxation. In Britain, the figure is but 27 percent. At the moment we are about halfway between these extremes. Yet relative to the price development in the United States, the price level in Britain and Germany has been reasonably well controlled under financial conditions such more explosive than has been the case for the United States. With their prior imposition of widespread rationing there has been first created idle funds which subsequently have been tapped by the government sales of bonds that have reasonably well nipped up such surplus purchasing power.

Proponents of a frontal attack upon general inflation by fiscal policy must recognize the extreme difficulty of first restricting purchasing power at a time when goods are still reasonably free in supply and still free to move in price because neither rationing nor price control has been widely used. But the use of the power to ration can check the supplies of goods and the use of power to control prices can further aid in reducing the stream of spending. In this way is created a surplus of purchasing power for which immediate and customary use channels are not open. As a result the consumer far more willingly acquiesces in the drive of government to secure these funds; when his ordinary alternatives, even at rising prices, are available to him he remains an unwilling subject or accomplice.

Thus either the controllers of prices and rations must reckon with historical evidence as to their responsibilities as well as recognize the limitations a democracy, not quickly effective in action, place upon them. It is indeed a responsibility well beyond that of fairly distributing a few commodities that become unduly scarce in supply. This responsibility moreover is tellingly accentuated by the fact that as the field of rationed commodities is widened the problem fast becomes intensified. This is so because the imposition of a ration and a fixed price over a fair portion of the field effectively brings a veritable deluge of purchasing power upon any unrationed field of necessities. The latter may not seem scarce relative to the former but they become scarce relative to purchasing power.

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Types of Rationing: Two General Extremes

The first type of rationing may conveniently be called specific rationing and it is now well known as applied to sugar, rubber tires, automobiles, and it will be well known probably for almost all durable goods because durable goods production is fairly soon expected to decline by no less than 80 percent. Specific rationing may operate well when the supplies to be doled out are extremely small. Since almost all are refused there can be only a small amount of unfair discrimination. There seems always to be enough differentiation within the classes of the consuming public to allow small and important groups in the community the trickle of available supplies. Consequently as supplies of durable goods dry up the desirable procedure is reasonably clear where objective criterion would.

At the other extreme there have been numerous proposals outlining a second general type of rationing procedure - purchasing power rationing. This form of rationing would limit (1) the total sum of money each consumer could spend for (2) the purchase of any and all scarce goods on a designated list. Although all goods tend to become scarce relative to purchasing power under the conditions of a war economy, only those which it is desired to supply in reasonably like amounts to all consuming units would be placed upon the restricted list. In this way, the pressure of demand would be reduced to any desired extent in the markets for the scarcer and more important goods. The uncontrolled field that would remain would provide an area of "incentives" for the improvident and an outlet for excess purchasing power in an area where limitation of price and trading is either not worth the administrative energy required or excessive consumption would not sap away strength from the war production effort.

The Limitations and Uses of the Two Types of Rationing.

Assuming that rationing should and will be extended to a wider and wider group of commodities, as argued above, a well-rounded rationing system could, theoretically, be built up through the employment of either of the two methods just described. But exclusive reliance upon either would create grave problems, the nature of which must be clearly grasped.

Specific rationing can work well when applied to commodities which are (a) so scarce that very few consumers need to be involved in the rationing scheme at all, or (b) so undifferentiated (i.e., standardized) and desired or needed by consumers in such equal amounts that consumption can be determined upon a straight per capita

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basis. But the more widely it is extended, even to necessities, the more unsatisfactorily it operates. Consumers become all cluttered with the multiplicity of coupon books and ration cards. The very multiplicity of coupons, each available for only a specific commodity, creates difficult administrative problems. But the really critical objection to the widespread use of specific rationing is that it places a severe and unnecessary limitation upon consumers freedom of choice.

This latter point cannot be quickly passed over. It is fashionable these days to regard freedom of consumer choice as a luxury that will have to be dispensed with for the duration of the war. And, in one sense, this is true. No one denies the necessity for reducing the number of varieties of goods and for limiting the freedom of action of consumers in certain ways. Nevertheless, the common failure to assess the importance of freedom of choice reveals a really remarkable misunderstanding of the most elementary economic considerations.

What is accomplished in peacetime through the operation of free markets for consumers goods is an allocation of goods among individuals which gives effect to their tastes and needs. At a time when the supply of consumers goods is greatly restricted in relation to the demand for them, it is particularly important to avoid the waste involved in an unsatisfactory allocation. Situations in which one family is granted a supply of sugar more than adequate for its needs but is in very great need of more clothing while another, because of differences in needs, habits, or tastes, feels the shortage of sugar acutely and has a plentiful supply of clothing are more serious when goods are scarce than when they are abundant. Since consumers goods are going to be scarce, it is more important than ever to secure the best distribution of them among individuals.

There is another side to freedom of consumer choice which is at least as important. It is that which concerns the allocation of expenditures through time. For normal and legitimate reasons, a consumer's need for a commodity may vary widely from month to month or season to season. No system of rationing is going to be tolerable that does not permit the consumer to forego consumption this month in order to expand consumption next month.

The point can be illustrated by contrasting the nature of the demand for sugar with that for gasoline. In the case of the former, it is no hardship (though completely unnecessary) to require the consumer to buy 12, 8, or any other designated number of ounces each week with some one order of groceries.

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But in the case of gasoline, although consumers may be most agreeable, because of the necessities of war, to limiting their total annual purchases they will deem most highly the privilege of arranging their consumption as they wish over the year. Some will wish to economize greatly in terms of daily use to maximize summer and vacation use. Others will develop a different pattern. And those charged with rationing will find it difficult to convince the public that a weekly dose of a given amount is the only way in which the necessary reduction in total consumption can be achieved. In fact they would probably prefer an even smaller annual total if flexibility can be arranged.

Any system of rationing which strictly limits consumers freedom of choice (a) as among commodities and (b) as to the distribution of expenditure through time, has the further grave disadvantage of maximizing the consumers incentive to cheat. If the family that is especially fond of fish can enlarge its supply by economizing on meat, or the family that requires more food can get it by economizing on clothing, if the automobile owner can provide himself with gasoline during a summer vacation by economizing through the rest of the year, each is saved from the most acute hardships that widespread specific rationing would impose. If each buyer is permitted, in other words, to economize in the manner easiest for him, the process of economizing will be less painful.

The matter may be stated positively with even more emphasis. The temptation to cheat is strongest when the consumer runs out of some particular commodity he needs at some particular time. If he is able to draw on past or future supplies (to a modest extent) by using up coupons or to get more of the particular scarce commodity by cutting down on others, such emergencies can be handled. But the automobile driver who runs out of his weekly ration of gasoline 20 miles from home, and the housewife whose weekly ration of milk gives out when her child is sick, will flout the rules if possible. Because freedom of choice among commodities and through time makes possible a more efficient consumption of goods, it makes the policing problem less acute.

On these grounds widespread specific rationing must be regarded as a highly unsatisfactory solution; its limitations have been widely recognized by rationers elsewhere. It is not uncommon to arrange groups of commodities for which total consumption limits are fixed but within which the consumer may adopt different patterns of consumption. A case in point is British and German rationing of clothing according to a "point" system which permits a concentration of purchase of some items because experience shows that other consumers will concentrate their purchase upon other items. (Only

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the statement of points in monetary terms is required to convert this system to a purchasing power rationing system.) As the result of limiting the number of points allotted to a consumer, equitable distribution of the limited supplies is achieved without strait-jacketing the costume of the individual consumer. Again in the case of meat no one would seriously propose the imposition upon consumers of either the compact ration of the soldier when in the field or of the precise cuts and qualities he may have. A ration of meat would limit only the total pounds that might be purchased or as in Britain the weekly financial outlay.

The case against specific rationing outlined above, however convincing, does not prove that, to go to the opposite extreme, purchasing power rationing would by itself be adequate to prevent inflation. Its major limitation is apparent. The scarcity of different goods in relation to the demand for them at official prices varies widely, depending upon (a) what happens to supply and (b) the income elasticity of the goods in question. If a purchasing power rationing system were enforced and if the restricted list of commodities included, at one extreme, durable consumer goods such as automobiles of which the supply will be negligible and, at the other, foods which will be relatively abundant, it would simply fail to achieve its most immediate purpose. Consumers would be free to concentrate their purchases on the two or three scarcest items. The demand and supply for such necessities as sugar would not be equated, except by the rising prices or by the disappearance of the goods from merchants' shelves. The total volume of consumer expenditure might be very adequately limited but the available supplies of really scarce commodities would not be equitably distributed. Clearly, then, while freedom of consumers choice is desirable, it must be limited in certain directions in order to have any effective rationing under war conditions.

Principles of Rationing

The considerations discussed above in connection with the two extreme forms of rationing suggest two ways in which consumers purchases might be limited with the minimum interference with freedom of choice. The first is through an extension of specific rationing but in terms of broad commodity groups rather than of specified articles of consumption. By classifying all commodities of which the sale is to be restricted into 3, 4, or 5 such groups on the basis of their probable scarcity in relation to demand at official prices, the major objective of specific rationing would be attained and considerable freedom of choice would still exist.

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All durables that use metal or machinery, for instance, together with goods that employ certain nonavailable imported materials would constitute the class of scarcest goods. These might appropriately be handled by the local rationing boards already set up. Sugar, tea, coffee, cocoa, woolen goods, and certain other articles that will readily suggest themselves form a class where the pressure of scarcity is likely to be extreme but where at least a small ration would be made available to all consumers. Gasoline, many foods, articles of clothing that use a small amount of wool, perhaps soap, and similar goods are going to be reasonably abundant but it may still be necessary to limit purchases, especially as rationing in other fields begins to make itself felt. These would fall into a third class.

In order to secure the advantage of some freedom of choice, the coupons issued to a consumer for an article in any one class should apply to all the articles in that class. In other words, there should be only one issue of coupons for each class of commodities. Presumably, a weight or "price" in terms of points would be assigned to each commodity within a class. These weights, themselves, could be adjusted to reflect the relative scarcity of the various articles. With such a system in force, the consumer would be free to increase his consumption of any restricted commodity if, but only if, he were willing and able to reduce his consumption of other commodities within the same class (except in the case of those articles in Class 1, i.e., automobiles, tires, and other scarce consumer durables).

But even the method of rationing here outlined could be further simplified and at the same time a still greater degree of freedom of choice could be introduced into the rationing system. Instead of setting up a series of classes, all restricted commodities (except those suggested above for Class 1) could be put in a single class and excessive purchases (in relation to available supplies) of the scarcer could be prevented by placing upon them a very high "price" in points. If this procedure were adopted, it would be necessary to issue only a single series of coupons which would be good in varying amounts for all those restricted commodities of which the supply is to be spread, on some basis or other, among all consumers. (Other scarce commodities would be included in Class 1.) Without disobeying the specific regulations embodied in the rationing system, every individual consumer would have the right to purchase a very large amount of, say, sugar or woolen goods. But, if these commodities are especially scarce as compared with other consumer nondurables, they would carry a high price in points. Therefore, the consumer who purchased large supplies would be compelled to make extremely drastic cuts in his consumption of, say, tea, coffee, meats, dairy products, shoes, and gasoline.

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If experience proved that, in spite of the penalty thus imposed upon purchasers of the scarcest goods, the demand for them was greater than the supply at prevailing money prices, it would always be possible without the issuance of coupon books or any other administratively complicated change in the rationing system to raise their "prices" in terms of points. In effect, then, the rationing authority would issue to each consumer a limited supply of "purchasing power" available for the buying of restricted commodities. Within that class of commodities, however, something analogous to a price system will operate as the rationing device.

Perhaps it should be pointed out, though this should hardly be necessary, that the ill-effects of inflation really would be avoided by this procedure even though scarce commodities would become very "expensive" in terms of points. The major reasons for not leaving the money prices of goods uncontrolled in an inflationary period is that (a) available goods would be bid away by those with more money to spend so that a highly inequitable distribution of real income would result and (b) the most price structure would be permanently distorted so that grave injustices would be done to those persons whose money incomes did not keep pace with prices. The first of these consequences does not ensue when "prices" in terms of points of scarce goods rise relative to other "prices" because the distribution of coupons can be made in such a way as to equalize the sacrifice imposed on consumers or distributed among them on any other basis that may be selected. The second difficulty does not arise because the structure of money prices and money costs is not affected and, therefore, cannot suffer from permanent distortion.

As a method of avoiding general inflation and equalizing supply and demand in specific markets the device here proposed has the virtue of administrative convenience as well as that of preserving a high degree of freedom in consumer choice. As already indicated, miscalculations can be corrected and adjustments made for changes in supply or in demand by simply publishing a new schedule of the weight or "price" in points to be attached to each article of consumption. Also, means can be devised whereby the total ration in points granted to each consumer can be expanded or reduced without the issue of new coupon books. One way of achieving this would be to lower the weights in points of many commodities. Another (and simpler) would be to include in each ration book when issued more coupons than would be required to make up the total ration for the time period in question, and to identify the coupons either by serial numbers or by differentiation of color. It would then be possible to change the number of points in the total rations of the period merely by validating more coupons in each book or invalidating some of those originally good. A third advantage which will be increasingly important as the scope of widening

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expands is that new commodities can be added to the restricted list or previously scarce commodities can be dropped from it with an absolute minimum of administrative difficulty. Presumably, the total ration in points would be enlarged as commodities were added or reduced than if they were dropped from the list.

The Size of the Total Ration

Under the procedure here outlined, the distribution of rations to consumers would, as rationing became widespread, largely determine the distribution of available real income. Something must be said, therefore, about the basis on which the distribution should be carried out. It may be suggested that it should be designed to achieve three objectives:

- (a) The distribution of necessities should be on a basis of equality.
- (b) The consequences of the existing distribution of money income should be modified as little as possible so far as the apportionment of non-necessities is concerned.
- (c) Due account should be taken of the special needs that arise out of special circumstances.

The second of these is, doubtless, somewhat controversial. But an indication of the way in which it might be achieved may both make its meaning clearer and make the principle itself more acceptable. The consumption of the higher income groups under normal conditions greatly exceeds that of the low income groups because it includes (a) many luxuries and types of expenditure which do not appear in low income budgets at all and (b) far larger payments for those goods that do appear in low income budgets. Extra consumption of the former type is not likely to be affected directly by rationing. Luxuries will probably not be rationed; they will simply be hard to obtain and, eventually, nonexisting. The fundamental decisions that affect their supply will be made in the course of the allocation of productive resources.

A serious problem does arise, however, out of "extra" spending of the second type. The rationing authority does have to determine whether the higher income groups should be permitted to spend more money for clothes, food, and other necessities than the lower income groups.

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Insofar as larger expenditure means larger physical quantities of standardized necessities such as sugar and coffee, or larger drafts upon the available supply of wool, the answer should almost certainly be in the negative. But insofar as larger expenditures mean the purchase of clothing that embodies finer workmanship or food that is more expensively packaged, that is delivered free, or that is bought in a high-priced store specializing in service, the answer should unquestionably be in the affirmative. Again, the experience of Britain and Germany lend support to the conclusion. What is limited there is the number of suits an individual is permitted to buy and, by implication, the amount of wool he is allowed to use but not the sum that he may spend.

This example suggests another reason for issuing an overall ration in terms of points rather than in terms of dollars. The "prices" in terms of points that are set upon various articles should not reflect their cost nor should they parallel the money prices that would rule in the absence of any controls. Instead, the "prices" in points should reflect simply the amount and scarcity of the restricted goods and services that go into their production. An eighty-dollar suit, for instance, should cost little if any more in points than a fifteen-dollar suit. A well-tailored suit without a waistcoat should cost less in points than one worth only a fifth as much in money but so designed as to use more wool. If weights or "prices" in points were set on this basis, (as they would appear to be wherever the point system is used abroad) the interference of the rationing system with the habitual consumption patterns of different income groups would be minimized.

Once this is clearly understood, the distribution of equal numbers of points to all consumers becomes both more acceptable and more logical than would be the distribution of, say, equal purchasing power rations in dollar terms. The problems raised by the habitual differences between the larger consumption expenditures of the higher income brackets and the smaller consumption expenditures of the lower income brackets need not arise. The normal rule then should be equal rations in points. This would take care of both the first and the second objectives.

The third, again, requires a little thought. Certain of the adjustments that should be made to reflect differences in need occur readily to any administrator. Families where there are small children might need less than a full ration per capita. Expectant mothers might need more. Men doing heavy physical labor might deserve a small percentage increase in their ration which would be sufficient to allow for a higher consumption of food.

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Certain other special needs are, however, less obvious. Operators of automobiles, if they are to be permitted to operate, would need enough points included in their ration to cover at least modest purchases of gasoline. If furnace oil or the services of utilities were to be rationed, the size of the total family ration would have to depend upon the appliances already installed and, presumably, upon the size of the house. These special modifications cannot be worked out in detail in a general memorandum. However, their general character and their great importance should be understood.

Administrative Features

One or two specific suggestions as to the method of administration may indicate further advantages of the proposal here advanced. First, a method of enforcement readily suggests itself. When making purchases of restricted commodities, consumers would be supposed to turn over the appropriate number of coupons to the retailer from whom the purchase was made. The retailer, in turn, should be required to present coupons for the appropriate number of points (or the equivalent thereof, see below) in making purchases from wholesalers. Wholesalers should, of course, do the same when buying from manufacturers. The latter, in turn, should be required to pay in points as well as in money for scarce materials made available to them.

If it were literally necessary to go through this procedure with the actual coupons originally submitted by consumers, it would be cumbersome indeed. But an obvious alternative exists and has already been adopted by the British. There is no reason why coupons should not be turned into the banks and bank accounts in terms of points handled in exactly the same way as bank accounts in terms of money. Transfer could then be by check in convenient denominations.

This would be virtually essential to expedite transactions between retailers, wholesalers, manufacturers, if the method of enforcement here suggested were adopted. But there is, of course, no reason whatever why the same privilege of depositing coupons in the banks should not be extended to consumers. Indeed, if the system of rationing were really widely extended so that a large proportion of consumers expenditures were affected, rations could be issued in the form of "checks" as well as in the form of actual ration books. Since points would constitute a type of money, there is no conceivable reason for not using the highly developed machinery of the banking system to make transactions in points as convenient as transactions in money.

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Specific Provisions

By way of summary, the type of rationing system proposed in this memorandum is here defined in terms of a list of specific provisions.

- (1) At intervals of six months or a year general rations consisting of a designated number of points should be issued to all consumers. The rations should be equal except insofar as they are modified on the basis of the special needs of the individual or family in question. These might arise from health, age, occupation, characteristics and equipment of dwelling, possession of an automobile, etc.
- (2) The ration should be issued in the form of ration books, a draft or check representing the whole number of points, or partly in the form of drafts and partly in the form of separate coupons. Provision should be made for invalidating a part of the coupons or draft issued or for validating further coupons and enlarging the draft by the publication of a notice without the necessity for the issue of a new or supplementary ration.
- (3) Points should be freely transferable either through the surrender of coupons or through the mechanism of checking accounts.
- (4) All commodities sufficiently scarce to require rationing, with certain exceptions noted below, should be on a published list of restricted commodities. Each should have a "price" in terms of points set on it by the rationing authority. Such "prices" should reflect simply the scarcity of the good in relation to the potential money demand for it at existing money prices. "Prices" or weights in terms of points should be changed as infrequently as possible and, so far as possible, the change should never be announced in advance of the date when it becomes effective.
- (5) Enforcement of rationing provisions should be carried on, so far as possible, at the point where scarce raw materials are issued to manufacturers or scarce manufactured goods are sold to wholesalers, retailers, or consumers. It should take the form of a requirement that the manufacturer turn over credits in points for all scarce materials made available to him or for all scarce

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output sold by him. If this were done, the need for further enforcement at the wholesale or retail level would be minimized, for no merchant could sell scarce goods for less than their proper "price" in points without permanently depleting his inventory. Enforcement at the wholesale retail level would be necessary, however, to control inventories.

- (6) All scarce goods which it is desirable to distribute exclusively on a basis of need and those too scarce to be shared equally by the whole population should be omitted from the restricted list and handled by specific rationing. Obviously, this includes most durable consumer goods, certain medical supplies, certain services such as, perhaps, medical services, and railroad transportation. However, the whole purpose of the rationing device here proposed will be defeated if specific rationing is extended further than is absolutely necessary.
- (7) The commodities that should probably be placed on the restricted list in the very near future are sugar, gasoline, tea, cocoa, woolen goods of all types, electrical appliances and electricity in certain areas. Other commodities should be added as scarcities threaten. The total ration should be altered when new commodities are put on the list so as to minimize the necessity for changing the prices in points already established for scarce articles. (It is assumed that goods now subject to rationing, such as automobiles and tires, would continue to be handled by specific rationing.)
- (8) The rationing of housing space is probably unnecessary except in certain localities. Where its use does have to be restricted, the number of points charged for the use of a dwelling should be based on the number of bedrooms it contains in relation to the size of the family and on no other feature. This would penalize consumers who occupy premises designed for larger families and would automatically favor those already living in overcrowded conditions. But it would not interfere with those qualitative differences between houses and neighborhoods which reflect the present distribution of money income.

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Conclusion

The system of rationing here outlined would have the following merits:

- (1) It would insure equality between supply and demand at official money prices in the absence of miscalculation. These, when made, could be corrected more easily and more rapidly than under any other system of rationing.
- (2) As it became widely extended, it would limit the aggregate expenditure of all consumers for all scarce goods and would thus create the conditions in which fiscal devices could be used to absorb excess purchasing power.
- (3) It would permit a very high degree of freedom of consumer choice, which is another way of saying that it would permit the most effective use of resources that are abnormally scarce.
- (4) It would operate in such a way as to insure that every family would be able to purchase its share of scarce goods but it would upset the consumption patterns of different income groups to a minimum extent.
- (5) It would have the supreme advantage of administrative convenience for both the administrative agency and the nation's consumers. Commodities could be added to or removed from the restricted list, changes in supply could be allowed for and other contingencies could be met without the issue of new rations.
- (6) The incentive for violation would also be minimized, and with it the policing problem. The freedom of choice allowed to consumers would enable them to meet contingencies and to secure those scarce goods they most desired by economizing on others. The policing of retailers and wholesalers could be largely avoided by concentrating supervision at the manufacturing level.

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Evaluation

Against his proposal certain objections will be urged:

1. The most reasonable is the contention that freedom of choice for consumers is not desirable at this time. This implies that the rationing authority should decide what people need to keep them at full efficiency and should then see that they get it whether they want it or not. As applied to essential foods, this contention may have some merit. But the practical disadvantages of interfering with freedom of consumer choice are so great and unnecessary regimentation so undesirable that it will not be accepted (except by those whose basic values deny the major premise underlying the case for freedom of choice even in normal times).
2. A plausible but less reasonable objection is that this system of rationing will be too complicated to explain to consumers. This is a point that cannot be settled in writing. But it is hard to see why a system involving coupons or points of only one type should be more complicated than one involving a multiplicity of coupon books or why a system of prices expressed in points that has worked well within commodity groups should not work when extended to cover all scarce goods.
3. An objection, closely related to the second referred to above, will be made by all those who argue that rationing means telling people how much they can have and that there is something inherently strange and wrong about a device which restricts consumers freedom of action so little. The same people will argue that this proposal implies setting up another price system to control the allocation of goods and that it must, therefore, be unjust because an uncontrolled money price system would be unjust. They are correct, of course, that what is here suggested is a type of price system but, for reasons explained above, it would not operate to the disadvantage of any persons except those whose need or desire for all scarce goods was especially great. And they are going to suffer whatever system is devised.

3-12-22

D. Probably the solidest objection of all will come from the potential administrator who will recognize that the proposed rationing system would

- (1) call for rather careful calculation before a "price" in points was established and
- (2) involve the risk that a sudden run on one or more restricted commodities would occur too quickly to be halted by a sharp rise in its cost in points. That this risk would exist cannot be denied. And it must be admitted that it would grow as more commodities were added to the restricted list and the total rations were enlarged. Even at the outset, there might be a run on tea or coffee and a decline in purchases of, say, sugar and coffee. The risk of such things happening would be greatly increased if "prices" in points were believed by consumers to be unstable and to be liable to increases. But, after all, a run on sugar that began in December 1941 necessitated the imposition of rationing which could not be accomplished until March 1942. A way has been found, somehow, to halt the run, or meet it, until permanent measures could be taken. With the rationing system here described already set up, prices in points could be altered within two or three days of the appearance of extraordinary demand. Moderately competent administration could meet this objection conclusively.

The rationing system which has been proposed, therefore, would yield a comprehensive and workable solution for the impending problem of scarcities.

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2/12/42

April 7, 1942.

Dear Mr. Nelson:

I thought you might be interested in having a copy of my confidential letter to the President of April 3, 1942, together with accompanying memorandum and chart, on the cost of living and what ought to be done about it.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Donald M. Nelson,
Chairman,
War Production Board,
Washington, D. C.

Enclosure.

GCH:ek

*N. M. C.
Copies to Dr. Haas*

By Messenger 10:40 Veach

FILE COPY

April 7, 1942

✓
Mr. Frederick
sent reminder
4/15/42

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Dear Jim:

I read your letter of April 5
with great interest.

I should be glad to discuss
this with you further at any time.

Yours sincerely,

(Signed) Henry

See Mr. Phillips
Ltr of 4/18

Hon. James V. Forrestal,
Under Secretary of the Navy.

Personal

By Messenger

Yach 3:45

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

5 April 1942

Dear Henry:

This is not an official communication and I am going outside my province in writing it, but I have been so much impressed by the facts that I can't keep myself from stepping out of bounds.

The British some weeks ago set a goal of 525,000,000 pounds sterling for voluntary contribution to what was designated "British Isles War Ship Week." So far, without a full report, 515,000,000 sterling has been contributed. It seems to me that in closing the so-called inflationary gap there are possibilities for us in this example -- not only war ships but planes, tanks, etc.

A number of people are skeptical as to what we could get on a voluntary basis in this country, but I am enough of an optimist and a salesman to believe that it might be considerable. I don't want to go off the deep end in promoting this idea any further without a word from you.

I hope you will forgive this amateur presumption.

Sincerely,

James Forrester

James Forrester

The Honorable
The Secretary of the Treasury

April 7, 1942
2:55 p.m.

HMJr: Morgenthau.

Sir
Frederick
Phillips:

Yes, sir.

HMJr: How are you?

P: Oh, I'm all right, thank you.

HMJr: Two things - I seem to be making a little bit of headway now in getting you some money.

P: Good. Yeah.

HMJr: I both got a letter from Mr. Stimson, and today one from Mr. Jones.

P: Yes.

HMJr: And by going after Mr. Hopkins - he's now given it to - oh, whatever the man's name is over at Lend-Lease - McCabe.

P: McCabe, yes.

HMJr: On the question of picking up outstanding contracts.

P: Yes.

HMJr: So McCabe said that he was going to concentrate on it this week.

P: Uh huh.

HMJr: So.....

P: I'll be seeing him tomorrow.

HMJr: Well, I thought you'd like to know this.

P: Yes. I did call on Mr. Jones.....

HMJr: Did you?

P:and he expressed his interest in the subject.

- 2 -

HMJr: Yeah. Well, the thing - so that you could help on your end, White's looking after it for me, but Hopkins has turned his end over to McCabe.

P: I see.

HMJr: And I just wanted to let you know we're doing all we can.

P: I got - as a matter of fact - I got a letter in just this moment from McCabe.....

HMJr: Yeah.

P:which is about one of our Lend-Lease applications, and it runs, "It seems to us that in order to grant your request, we would be required to relax our rules of eligibility. Furthermore, we do not feel justified in taking this step without having determined in conjunction with the Treasury that the British dollar position is such that a major change of policy is necessary."

HMJr: Yeah.

P: It's obvious he's been thinking along some of those lines.

HMJr: Yeah. Let me ask you this - I just had a note from Mr. Forrestal about the British Isle War Ship Week.

P: British Isle War Ship Week.

HMJr: Yes.

P: Yes.

HMJr: Now, he said they were trying to get five hundred and twenty-five million pounds sterling, and it says "voluntary contribution". Does that mean in the way of a loan or a gift, do you know?

P: Oh, well, I haven't heard the details of that thing, but - it gives it like what they used to

- 3 -

call the "Weapons Week". They try and get all they could voluntarily, I should think; but also they'd count into their total anything they got subscribed in the particular town or district in War Bonds and so on.

HMJr: Well, would.....

P: The general idea is to - with that kind of thing - is to put, say Liverpool in competition with Manchester and make them try and race each other for a total.

HMJr: Would you mind sending a cable to your Chief and saying that I'm interested?

P: Yes.

HMJr: Would he send over just enough details so that you could tell me about it?

P: That's right. I'll do that today.

HMJr: Will you?

P: Yes.

HMJr: That I'm interested and I'd like to know.

P: Yes.

HMJr: If he'd cable back just a description of what it is.

P: Right. That shall be done.

HMJr: Might learn something.

P: Yes.

HMJr: Thank you.

P: Thank you very much.

April 7, 1942

At three o'clock a group met in the office of the Secretary of the Treasury. In addition to Secretary Morgenthau, those present were: Mr. D. W. Bell, Under Secretary of the Treasury, Mr. E. H. Foley, Jr., General Counsel of the Treasury; Mr. Preston Delano, Comptroller of the Currency; Mr. Robert B. McCandless, Deputy Comptroller of the Currency; Mr. Norman Tietjens, Assistant General Counsel of the Treasury; and Mr. C. B. Upham, Deputy Comptroller of the Currency.

Mr. Bell informed the Secretary that the matter up for consideration had to do with a proposal for the purchase, by a corporation to be organized in Detroit, of the remaining assets of the First National Bank-Detroit, insolvent. Mr. Bell said that Mr. Delano would tell the story and give the background of the receivership during the nine years that it has been under liquidation by the Office of the Comptroller of the Currency.

Mr. Delano then placed before the Secretary a memorandum, copy of which is attached, giving the salient points of the proposed action. After he had read that, the Secretary asked Mr. Delano and Mr. Foley and Mr. Bell if they favored

- 2 -

the acceptance of the offer of the Detroit group and each one of them said that he did.

Mr. Bell said one feature had caused some doubt in his mind--namely, the fact that the purchasers expect to borrow the necessary money (\$25 million) from the RFC. Mr. Bell felt this left the Federal Government in the picture and it might look as if it were one Government agency turning the assets over to another Government agency. Moreover, he had some doubts about the use of Government funds for that purpose under the existing circumstances. He explained that when he made that point to Senator Brown, the Senator reported back to him that the Detroit purchasers feel that they can pay the RFC off in approximately two years, refinancing the debt locally in Detroit.

Mr. Morgenthau asked who the group in Detroit was and Mr. Delano gave him the names of the members of the Committee and pertinent facts about their positions and connections and standing in Detroit. He explained particularly that the Committee had been sponsored by Senator Brown and that the Mayor of Detroit had appointed a representative of the public interest on the Committee.

- 3 -

Mr. Foley said that it seemed like a good deal to him, the only question being price, which he understood was satisfactory to the Comptroller. This the Comptroller confirmed. He told the Secretary that we had already paid the depositors in this half billion dollar receivership all of the principal of their deposits and that we would be enabled to pay them approximately 8 per cent dividend out of the 12 per cent plus that has been earned. He explained that a safeguard has been set up under which any depositor who so desired could participate with the corporation in future liquidation rather than retaining the 8 per cent which will be made available to him. Mr. Morgenthau expressed himself as being of the opinion that this was particularly important and stipulated that the utmost care should be used to see that this participation feature was carefully followed out.

Mr. Bell pointed out that the offer of \$41 million is approximately 80 per cent of the appraised value of the assets, and Mr. Delano explained that the bulk of the remaining assets is around 2,000 pieces of real estate and several thousand land contracts.

- 4 -

Mr. Morgenthau asked why the group in Detroit wanted to purchase the assets. To this Mr. Delano replied that they seem to have three main purposes: (1) To regain possession and administration of the assets in a local Detroit group, as was done in the case of the Guardian Bank (thus removing something of a stigma, as they felt, in having a Federal receivership in their city); and (2) because of their feeling that the more leisurely liquidation of the real estate assets which they contemplate would have less of an adverse effect on real estate values generally than would the more pressing liquidation which we must necessarily pursue; and (3) because they felt they might also by a longer period of liquidation get more out of the assets for eventual return to shareholders than could be realized by us. Mr. Bell supplemented this by observing that in his opinion it is desirable from our point of view also that the Government wind up this type of activity and get out of the liquidation business as rapidly as possible.

Mr. Morgenthau initialed the memorandum which had been presented to him and asked that he be given a photostatic copy for his files.

[Signature]

Pls file de⁵⁷th
of Hoxie
approval
4/7

March 18, 1942

MEMORANDUM TO: Secretary Morgenthau

FROM: Comptroller of the Currency Delano

The Comptroller of the Currency has received an offer of \$41,100,000 for all of the remaining assets of the First National Bank-Detroit, insolvent.

The offer is made by a Committee of depositors and shareholders representing important interests in Detroit who propose to form a liquidating corporation in the hope that some eventual return may be made to stockholders who have paid assessments. I consider this offer as equivalent to the present cash value of the assets and, subject to your approval, I propose to accept the offer and terminate the receivership as soon as possible. The sale will, by law, be subject to court approval.

This is our largest receivership. Since the bank's closing in 1933, the receiver has liquidated 90 percent of the assets and has returned to depositors the full amount of their deposits amounting to \$335,000,000.

The ten percent remaining assets are the least

- 2 -

desirable and least liquid of all the assets of the trust. These assets have been appraised at \$51,546,287 but this estimate contemplates liquidation extending over a period of five or more years. The present emergency renders all such estimates of value problematical, and the sale of the remaining assets at a substantial discount from appraisal is certainly preferable to the extended continuation of a receivership already over nine years old.

The proposed sale will enable us to pay depositors an additional dividend, by way of interest, of between seven percent and eight percent, which will be more than half of the entire interest accrued on depositors' claims.

The Committee has stated that it will permit any depositor who so desires, to participate in its liquidation, if he thinks it is to his advantage to do so, rather than retain the seven percent or eight percent cash dividend that he will receive from us. Some depositors may wish to retain an interest in the

- 3 -

assets until they have been finally liquidated.

In my judgment, the price offered is in the interest of the depositors, and I recommend that the sale should be made.

OK.
I. M. Mutha
April 7, 1942

April 7, 1942
4:00 p.m.

HMJr: Hello.

Operator: Mr. Landis is out of his office attending a meeting. He'll be back at four-thirty, or they could reach him if it's urgent.

HMJr: I would call it urgent.

Operator: Right.

HMJr: I would call it urgent.

Operator: All right.

4:05 p.m.

HMJr: Hello.

Operator: James Landis.

HMJr: Hello. Hello.

James Landis: Hello.

HMJr: Henry talking.

L: Yeah.

HMJr: I wouldn't bother you but it will just take a second. Mr. Daniels is here, and I was telling him that at nine-fifteen tomorrow morning we're having a meeting on the subject which you tried to find out something about at Cabinet the other day.

L: Yeah.

HMJr: And Harold Smith is going to be here, and Leon Henderson and that whole group, to talk about rationing and forced savings and so forth and so on. And I thought that if you didn't have anything better to do, you'd find it interesting.

- 2 -

L: Yes, I would.

HMJr: At nine-fifteen.

L: All right.

HMJr: Because I haven't got a friend in town - they all want me to give up volunteer and go to forced savings.

L: Uh huh.

HMJr: So it affects you, I think, about as much as it'll affect me.

L: Yeah, I think it does.

HMJr: What?

L: I think it does.

HMJr: So come on in; the water's fine.

L: All right. I'll be there.

HMJr: Nine-fifteen.

L: Nine-fifteen.

HMJr: Okay.

L: Right. Thanks.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

April 7, 1942

I talked with Leon Henderson this afternoon and he said he would be glad to lead off at tomorrow's meeting if you will turn to him at the beginning of the meeting and give him some opening, such as, "I haven't seen you for some time, Leon, what are your ideas on this whole subject?"

ASL



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

April 7, 1942.

Dear Henry:

Thank you for your note of April 6 commenting on the assistance which Governor Szymczak rendered in connection with the evacuation problem on the West Coast. He will be very gratified, as I am, by your commendation.

Sincerely yours,

A handwritten signature in cursive script, which appears to be "Marriner", is written below the typed name.

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

*Delivered, and accepted
by me, by Allan Spraul*

4-7-42

65

New York, April 3, 1942.

Allan Spraul, Esq., President,
Federal Reserve Bank of New York,
New York, N. Y.

To give expression to their views voiced at the meetings which you initiated, the principal member banks of New York City wish to advise you - and request that you, in turn, inform the Secretary of the Treasury - of their desire to assist where they can be helpful in meeting the immediate problems of government financing.

The banks appreciate the grave responsibility and burden which has been placed upon the Treasury, and are particularly anxious to cooperate with the Treasury and the Federal Reserve System in order to help make the financing program operate smoothly and successfully.

1. Under the leadership and advice of the Federal Reserve Bank of New York, the member banks of New York City can and will so conduct their operations as to make all of the funds at their disposal most effective in furthering the Treasury's financing program.

2. Through their organizations, the banks have excellent facilities for the distribution of government securities, not only to bank investors, but to non-bank investors as well. They are glad to place these facilities at the disposal of the Treasury, and to offer their cooperation in an active and aggressive campaign of distribution of government securities under its direction.

3. As a group which may be used as active agents for the distribution of securities to others, and as purchasers of government securities for themselves, the personnel and experience of the New York City banks are at the disposal of the Treasury for consultation in considering financing programs or the particular types of securities which might most effectively be used in forwarding such programs.

WILLIAM C. PETER

Chairman of the General Committee
of the New York Money Market.

Bank of the Manhattan Company	J. Stewart Baker,	Chairman
Bank of New York	J. C. Traphagen,	President
Bankers Trust Company	B. A. Tompkins,	Vice Pres.
Central Hanover Bank and Trust Company	Henry P. Turnbull	Vice Pres.
Chase National Bank	Winthrop W. Aldrich,	Chairman
Chemical Bank and Trust Company	N. Baxter Jackson,	Vice Pres.
Commercial National Bank and Trust Company	Herbert P. Howell,	Chairman
Corn Exchange Bank Trust Company	Ralph Peters, Jr.,	President
First National Bank	Leon Fraser,	President
Guaranty Trust Company of New York	W. C. Potter, W. P. Conway,	Ch., Ex. Com. Ch., Board
Irving Trust Company	Harry E. Ward,	Chairman
J. P. Morgan and Company, Inc.	George Whitney,	President
Marine Midland Trust Company	James G. Blaine,	President
Manufacturers Trust Company	Harvey D. Gibson,	President
National City Bank of New York	G. S. Rentschler, W. R. Burgess,	Chairman Vice Ch.
New York Trust Company	John E. Bierwirth,	President
Public National Bank and Trust Company	E. Chester Gersten,	President

*Ans Klotz Please note.
10m. J.*

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

April 7, 1942

The following paragraph is quoted from a memorandum sent to me by Mr. Clevenger today:

"After deliberation Roswell Magill has turned down the radio talk. He came to the conclusion that inasmuch as he could not agree with several of the more important points of the Treasury's Program his speech would have some embarrassing omissions. In a telephone conversation, he said—(1) that he did not have any talent for interpreting tax matters to the general public, and (2) that he has followed the policy of staying out of public discussions since he left the Treasury, and had refused on several occasions to appear before the House Ways and Means Committee."

12P



THE SECRETARY OF THE TREASURY
WASHINGTON

APR 7 - 1942

My dear Mr. President:

It has been proposed that the existing shortage in copper may be alleviated to some extent by substituting silver for copper in certain processes in connection with war production. The Department of the Treasury would make available to war plants, both Government and privately owned, certain "free silver" from the available silver stocks of the Government. The silver would not become a part of the products of the plants, nor would it be used up. It would rather be used as plant equipment in such a way as to permit substantially all of it to be returned to the Government at or about the termination of the war, or before if the Government should so demand. The silver would not be sold, and safeguards would be adopted to insure the return thereof to the Government and to indemnify the United States against loss of the silver from wear and tear or from other reason. "Free silver" is uncoined silver

FOR DEFENSE



- 2 -

owned by the Government, but which is not held for redemption of any outstanding silver certificates. The supply of "free silver" is large enough to release large quantities of copper for other war needs, if the proposal is carried out.

It is the view of this Department that you have plenary power under the Joint Resolutions of December 8 and December 11, 1941, 55 Stat. 795, 796, 797, in which a state of war was declared between the United States and Japan, Germany, and Italy, to authorize action to be taken in accordance with the above outlined proposal. Furthermore, the Department is in receipt of an opinion of the Attorney General of the United States to the effect that the Secretary of the Treasury has authority to carry out the proposal without approval or authorization from you.

However, for policy reasons, as well as to strengthen the legal grounds, I am of the opinion that action should not be taken under the proposal without your approval and authorization. If you will indicate your approval and authorization below, I

- 3 -

shall take steps to put the proposal into operation under such conditions and arrangements as I find necessary and proper to protect and promote the interests of the United States.

Faithfully yours,

J. M. Smith
Secretary of the Treasury.

The President,

The White House.

Approved:

Franklin D. Roosevelt
7/8

APR 7 - 1942

My dear Mr. President:

It has been proposed that the existing shortage in copper may be alleviated to some extent by substituting silver for copper in certain processes in connection with war production. The Department of the Treasury would make available to war plants, both Government and privately owned, certain "free silver" from the available silver stocks of the Government. The silver would not become a part of the products of the plants, nor would it be used up. It would rather be used as plant equipment in such a way as to permit substantially all of it to be returned to the Government at or about the termination of the war, or before if the Government should so demand. The silver would not be sold, and safeguards would be adopted to insure the return thereof to the Government and to indemnify the United States against loss of the silver from wear and tear or from other reason. "Free silver" is uncoined silver

- 2 -

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However, for policy reasons, as well as to strengthen the legal grounds, I am of the opinion that action should not be taken under the proposal without your approval and authorization. If you will indicate your approval and authorization below, I

- - -

shall take steps to put the proposal into operation under such conditions and arrangements as I find necessary and proper to protect and promote the interests of the United States.

Faithfully yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The President,
The White House.

Approved:

ERF:EHF:vls - 4/6/42

April 7, 1942

MEMORANDUM FOR THE SECRETARY'S DIARY:

Secretary Morgenthau suggested that Harry White and I talk to the legislative leaders in regard to a proposal made by the War Production Board that we make some of our free silver stock available for use in war plants being erected by the Government or by private persons for the production of war materials as a substitute for copper. The silver would be loaned under control safeguards and would be returned to the Treasury after the emergency when the copper shortage was not so acute.

Harry White and I saw Congressmen Jere Cooper and Eugene Cox, Acting Majority Leader and Speaker pro tem in the absence of Congressman McCormack and Speaker Rayburn, in Parliamentarian Lewis Deschler's office at 1:30 P.M. on Thursday, April 2, 1942. Deschler was also present. I outlined the proposal and told them that we had looked into the legality and had come to the conclusion that the scheme was legally feasible. I also told them that we had taken the matter up with the Attorney General and from our conversations with his representatives it appeared to us that he would agree with our conclusions. I told them that our purpose in coming to them was to get their reaction as to whether or not we should go ahead, provided the Attorney General was with us, without coming to Congress for specific legislative authority.

Congressman Cox read carefully my memorandum (printed copy of which is attached) as did Mr. Deschler. After some discussion Congressman Cox thought our position was reasonable and saw no reason why we should not go ahead if the proposal is within the law. Congressman Cox did not think we could be criticized and if we were he said he would defend us publicly. Congressman Cooper said we might come down and discuss it with them if the Attorney General's opinion was not favorable at which time he would call in Congressman Martin to see if some agreement couldn't be reached on the wording of a joint resolution restricted to

- 2 -

what we wanted to accomplish. Otherwise he thought we should go ahead without legislation. Mr. Deschler was concerned merely by the scope of the President's authority under the Joint Resolution declaring a state of war to exist between the United States and Germany should we conclude that the language of the resolution is broad enough to permit the President to make the free silver stock available as a copper substitute for war plants. His observations held merely to the reasons expressed in the memorandum. He had no objection to the purpose which we sought to achieve.

Mr. White and I then went to Col. House's office where we talked briefly with Senator Barkley. Senator Barkley told us that the Senate was in recess until April 20 and would not have a quorum for the conduct of legislative business until that time. After I had explained the problem to him he thought we should go ahead but agreed to consult Senator McNary. When McNary joined us I told him what we proposed to do and without hesitation he suggested that we go ahead. He said that silver legislation at this time would open up the entire silver question and the delay would be interminable.

9.11.74

MAR. 30 1942

To: Secretary Morgenthau

From: Mr. Foley

The question has arisen whether there is authority to permit the use of the available silver stocks ^{1/} of the Government in industrial defense plants, both Government and privately owned, in substitution for copper. The silver is to be used in such manner that it will not become a part of the product or be used up, but will be made a part of the plant equipment and will be returned at the termination of the war. There may be some small loss from conversion and reconversion of the bars of silver.

The authority of the Secretary of the Treasury to sell silver pursuant to section 4 of the Silver Purchase Act of 1934 ^{2/} can be exercised only when the market price of silver is in excess of its monetary value or silver stocks exceed 25 per centum of the value of the monetary stocks of both gold and silver, neither of which conditions presently exists. However, the Joint Resolution of December 8, 1941, declaring a state of war between the United States and the Imperial Government of Japan (Joint Resolution of December 8, 1941, c. 361, 55 Stat. 795), provides:

* * * the President is hereby authorized
and directed to employ the entire naval and
military forces of the United States and the
resources of the Government to carry on war

^{1/} The only silver which is considered in this connection is the so-called "free silver". Section 5 of the Silver Purchase Act of 1934 requires the maintenance, as security for outstanding silver certificates, of silver bullion and standard silver dollars of a monetary value equal to the total face amount of silver certificates issued both before and after the passage of the Act.

^{2/} Act of June 19, 1934, c. 674, sec. 4, 48 Stat. 1178, (U.S.C., 1940 ed., title 31, sec. 734b).

against the Imperial Government of Japan; and, to bring the conflict to a successful termination, all of the resources of the country are hereby pledged by the Congress of the United States." ^{3/} (Underscoring supplied.)

That language is identical with the language of the Joint Resolutions of April 6, 1917, 40 Stat. 1, and December 7, 1917, 40 Stat. 429, which respectively declared a state of war to exist between the Imperial German Government and the United States and between the Imperial and Royal Austro-Hungarian Government and the United States.

That broad powers were granted to the President by the Joint Resolutions of April 6, 1917, and December 7, 1917, has been recognized both by the Supreme Court and the lower Federal courts and in proclamations and executive orders issued by President Wilson during the first World War. Thus, the Supreme Court in Highland v. Russell Car Company, (1929) 279 U.S. 253, sustained the fixing of the price of coal under the Lever Act (Act of August 10, 1917, c. 53, 40 Stat. 276, as amended), and in so doing, cited, among other applicable statutes, the Joint Resolution of April 6, 1917, as follows:

"The Joint Resolution of April 6, 1917, 40 Stat. 1, declaring war with Germany directed the President to employ the entire naval and military forces and pledged all the resources of the country to bring the conflict to a successful termination."

The Court in that case held that " * * * the Congress and the President exert the war power of the nation, and they have wide

^{3/} The identical language is contained in the Joint Resolution of December 11, 1941, c. 564, 55 Stat. 796, declaring a state of war between the United States and the Government of Germany, and in the Joint Resolution of December 11, 1941, c. 565, 55 Stat. 797, declaring a state of war between the United States and the Government of Italy.

discretion as to the means to be employed successfully to carry on." See also Virginian Railway v. Mullen, (1926) 271 U.S. 220, 224. Again in United States v. Wells, (D. T.D. Wash. 1917) 262 Fed. 833, the court stated that since the President was directed by the Congress to employ the entire naval and military forces to carry on war against the Imperial German Government, it was immaterial, in a prosecution for conspiracy to prevent the enforcement of laws relating to mobilization of the Army, whether the Selective Draft Law (Act of May 18, 1917, c. 15, 40 Stat. 76) had been passed or not at the time of the alleged conspiracy. Finally, in United States v. McIntosh, (D. E.D. Va. 1932) 2 F. Supp. 244, app. diam. (C.C.A. 4th, 1934) 70 F. (2d) 507, cert. denied (1934) 293 U.S. 586, the court, in an obiter dictum, recognized the right of the Government to condemn land by virtue of the powers granted in the Joint Resolution of April 6, 1917.

Censorship of telephone and telegraph lines and submarine cables was established by President Wilson pursuant to the authority of the Joint Resolution of April 6, 1917, *supra*. Thus, by Executive Order No. 2604, dated April 28, 1917, he prohibited the transmission by companies or persons owning, controlling, or supplying telegraph and telephone lines or submarine cables from transmitting messages without the United States and from delivering messages received from such points except under rules and regulations established therefor. The only authority cited for the action was:

" * * * the power vested in me under the Constitution and by the Joint Resolution passed by Congress on April 6, 1917, declaring the existence of a state of war, * * * " h

Executive Order No. 2605A, dated April 30, 1917, authorizing the Secretary of the Navy to take over radio stations, was stated to be issued upon the authority of the Joint Resolution of Congress dated April 6, 1917 and the Act to Regulate Radio Com-

h Executive Order No. 2967, dated September 26, 1918, which modified Executive Order No. 2604, was predicated upon the same authority.

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munications, approved August 13, 1912. ^{5/} In addition, President Wilson issued three proclamations taking over various rail and water transportation systems. Proclamation of December 26, 1917, 40 Stat. 1733; Proclamation of April 11, 1918, 40 Stat. 1769; Proclamation of June 22, 1918, 40 Stat. 1808. In all of those proclamations the President cited as authority for the action taken not only the Act of August 29, 1916, empowering him to assume control of the systems of transportation, but also the Joint Resolutions of April 6, 1917 and December 7, 1917.

It is apparent, therefore, that the direction contained in the Joint Resolutions of December 11, 1941, and December 8, 1941, authorizing and directing the President to employ the resources of the Government to carry on the war, vests in him broad discretionary powers concerning the use of the Government resources. The "resources" of a county have been defined to include "land, timber, coal, crops, improvements, railways, factories, and everything that goes to make up its wealth or to render it desirable." Jefferson County v. Peter, (Ky. 1907) 105 S.W. 887, 888. And in Moore v. State Social Security Commission, (Mo. App. 1938) 122 S.W.(2d) 391, 394, the word "resources" was defined as "money or any property that can be converted into supplies; means of raising money or supplies; available means or capability of any kind."

My conclusion, therefore, is that it is within the President's powers under the Joint Resolutions of December 8, 1941, and December 11, 1941, to direct that "free silver" contained in the available stocks of the Government be transmitted to industrial plants engaged in defense production for use by such plants in that production in a manner which will permit substantially all of it to be returned at the termination of the war.

(Signed) E. H. Foley, Jr.
General Counsel

^{5/} It is to be noted that the order was originally issued as Executive Order No. 2585, dated April 6, 1917. The two orders are identical except that the latter order inserted as an authority for the action taken the Joint Resolution of April 6, 1917.

COPY

OFFICE OF THE ATTORNEY GENERAL

WASHINGTON, D. C.

April 7, 1942

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

If you approve, I should like to have published, in accordance with U.S.C., title 5, sec. 305, my opinion to you of April 7, 1942, transmitted herewith, concerning the authority of the Treasury Department to lease or license free silver in place of copper for war production.

Please let me know whether you have any objection to its publication.

Respectfully,

/s/ Francis Biddle
Attorney General.

COPY

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OFFICE OF THE ATTORNEY GENERAL

Washington, D. C.

April 7, 1942

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Your letter of April 1, 1942, requests my opinion on the following question: Can the Treasury lease or license the use of "free silver" in the place of copper for war production in both Government and privately-owned plants under an agreement to assure the return of the silver?

It is my opinion that you, as Secretary of the Treasury, can so lease or license the use of "free silver."

In your request for my opinion you state that:

"It is not intended that the silver will become a part of the products or be used up, but rather will become a part of the plant equipment in such a way as to permit substantially all of it to be returned to the Government at the termination of the war or before at the Government's request. The silver will not be sold, and safeguards will be adopted to insure the return of the silver * * * and properly to indemnify the Government if any silver is lost from wear and tear or for other reason."

The silver referred to in your statement is "free silver"—uncoined silver owned by the Government which need not be held as security for outstanding silver certificates.

With the approval of the President, the Secretary of the Treasury is authorized by the Silver Purchase Act of June 19, 1934 (48 Stat. 1178;

U.S.C., title 31, sec. 734(b)), to sell "free silver" acquired under that Act. This authority may be exercised "whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver." Neither of these conditions now exists. This statutory provision does not, therefore, confer authority, under present conditions, for the sale of "free silver" acquired under the Silver Purchase Act. But nothing in the Act of June 19, 1934, or in any other statute, prohibits the leasing or licensing of "free silver" for the intended purposes.

Leasing of the "free silver" is authorized by statute (Act of March 3, 1879, c. 182, 20 Stat. 377, 383; U.S.C., title 40, sec. 303(a)).

That statute provides as follows:

"That authority be, and is hereby, given to the Secretary of the Treasury to lease, at his discretion for a period not exceeding five years, such unoccupied and unproductive property of the United States under his control, for the leasing of which there is no authority under existing law, and such leases shall be reported annually to Congress."

Nothing in the statutes which relate specifically to silver excepts free silver from the broad sweep of the authority conferred by the Act of March 3, 1879, in the circumstances here presented.

The authority to lease conferred by the Act of March 3, 1879, is not limited to property of any particular kind. It applies to property of any and every kind, owned by the United States and under the control of the Secretary of the Treasury, provided only that that property is "unoccupied

and unproductive." Personal property as well as real property can be uncoupled or unproductive. Where Congress intends to confine the authority to real property it usually says so in no many words, as it did, for example, in the surrounding sections of the Code by referring to "lands", "buildings" or "real property" (U.S.C., title 40, secs. 301, 302, 303b, 304, 304 e-m, 305, 306). Nothing in the legislative history of the Act of March 3, 1879, indicates that Congress did intend to limit the statute to real property. In fact, the Act of July 28, 1892 (27 Stat. 321)—giving similar power to lease to the Secretary of War—has been held to apply to personal property. 31 Op. 457. And the legislative history of that Act shows that Congress intended to give the Secretary of War in a more "restricted" manner the power previously given to the Secretary of the Treasury. 23 Cong. Rec. 2187 (March 18, 1892).

Licensing or other similar permission to use the "free silver" is also authorized by section 161 of the Revised Statutes (U.S.C., title 5, sec. 22) which provides that:

"The head of each department is authorized to prescribe regulations, not inconsistent with law, for the government of his department, the conduct of its officers and clerks, the distribution and performance of its business, and the custody, use, and preservation of the records, papers, and property appertaining to it."

Revocable licenses in the public interest for the use of Government property can and have been granted many times under this statute. Illustrative is 34 Op. 320, in which Attorney General Stone held that the Secretary of the Navy had the power to grant revocable licenses to use Government-owned patents without specific congressional authority.

Aside from the question whether the war powers of the President under the Constitution may, under certain circumstances, authorize the President to dispose of property of the United States independently of the

constitutional provision authorizing the Congress to make and regulate such dispositions, it is clear that the Congress, in Section 161 of the Revised Statutes, has given the head of a department power—short of complete alienation of title and control—over "the custody, use and preservation" of such property. Under this statute, the Secretary of the Treasury is empowered to permit the use of free silver when he does not relinquish paramount control over it. But such permission to use must result in a benefit to the Government. The benefit need not be consideration in the technical sense. Under the circumstances stated, the Government would be arranging for the use of the silver to permit the release of copper—a strategic and critical material vitally necessary in the manufacture of articles of war. Such a benefit is of the highest order. For governments, as for individuals, self preservation is one of the first rules of existence.

But such a benefit alone is not sufficient to justify a windfall to a private manufacturer. The lease or license should be so drafted that any exorbitant profit which might accrue to a private manufacturer by substitution of silver for copper would be compensated for by some payment or other benefit flowing from the private manufacturer to the United States. The payment or other benefit need not be exactly equivalent; a broad range of negotiation, of course, exists in which the Secretary may exercise his administrative discretion.

The leasing or licensing of "free silver", under the conditions stated by you, would not be inconsistent with the silver policy declared by the Congress. Section 2 of the Silver Purchase Act of 1934 states

it to be "the policy of the United States that the preparation of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one-fourth of the monetary value of such stocks in silver." The leased or licensed silver, though not in the possession of the Treasury or of the Government during the term of the lease, would still be a part of the "stocks of silver." That term, it is provided in section 10 of the Silver Purchase Act of 1934, "means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding." There is no statute which requires that "free silver" owned by the United States shall be retained in the possession of the Treasury in derogation of the authority to lease conferred by the Act of March 3, 1879, or to license conferred by Section 161 of the Revised Statutes. On the contrary, the policy of Congress has been to direct that all necessary steps be taken to develop and secure our supplies of strategic and critical materials. See Act of June 7, 1939 (53 Stat. 211; U.S.C., title 50, sec. 98).

Since it is not desired to sell the "free silver" it is unnecessary to pass on the question of whether such statutes as the Act of July 9, 1918, as amended (40 Stat. 215; U.S.C., title 40, sec. 314; 40 Stat. 1173; 45 Stat. 986), when read together with the Silver Purchase Act of 1934 authorize the sale of silver as a war material.

Because it is my opinion that you, as Secretary of the Treasury, without approval or other action by the President, are authorized by statute to lease "free silver" to agencies of the Government and to

- 6 -

private interests for the use in question, for terms not exceeding five years, or to grant a revocable license for such use, I deem it unnecessary to determine whether there is authority in the President, conferred by the Constitution, to permit such a use of "free silver." Similarly, I do not think it is necessary for me to answer the question whether the Joint Resolutions of December 8 and 11, 1941 (55 Stat. 795; 55 Stat. 796; 55 Stat. 797), directing the President to employ "the resources of the Government" to carry on the war, constitute congressional sanction for the alienation of title to or the use of "free silver" in the war effort.

Respectfully,

(signed) Francis Biddle

Attorney General.

APR 7 1942

Mr. Elmer L. Irey,
Chief of Intelligence Unit,
Bureau of Internal Revenue.

Sir:

You are hereby appointed Technical Assistant to the Secretary, effective April 9, 1942, without change in compensation or pay roll.

Under your new assignment you will devote full time to the work of coordinating the activities of the enforcement branches of the Treasury Department, and are hereby relieved of your responsibility as Chief of the Intelligence Unit, Bureau of Internal Revenue.

Very truly yours,

(Signed) H. Morgenthau, JR.

Secretary of the Treasury.

M. M. C.

copies to Thompson

APR 7 1942

Through the Bureau of the Budget
Attorney General
Division of the
Federal Register

My dear Mr. President:

There is submitted for your consideration a proposed Executive Order establishing the Interdepartmental Committee for the Voluntary Pay Roll Savings Plan for the purchase of Defense Savings Bonds.

Programs providing for the purchase of Defense Savings Bonds by means of periodic allotments from pay have been widely adopted throughout business and industry, and in a few instances by departments of the Government. Such arrangements are popular with the employees to whom the savings and investment facilities are made available. This is reflected not only in a high percentage of per capita participation but also in a substantial increase in the amount of bonds periodically purchased.

The Treasury Department has recently established such a system - a Pay Roll Savings Plan whereby every officer and employee has the opportunity to purchase Defense Savings Bonds through periodic allotments from his pay. The plan is entirely voluntary. The election as to whether to participate, and as to the amount (in excess of a reasonable minimum) to be deducted each pay day for accumulation towards the purchase of a bond, are matters within the discretion of the individual.

Issuance of the proposed Executive Order would most effectively promote the adoption of the Pay Roll Savings Plan throughout the

- 2 -

Government, thereby making the plan available to substantially all civilian officers and employees. The Order does not contemplate that the Interdepartmental Committee would exercise regulatory authority over the administrative practices or policies of the several departments, establishments, and agencies.

The proposed Executive Order designates Rear Admiral Charles Conard, Supply Corps, United States Navy, Retired, to be Chairman of the Interdepartmental Committee. Admiral Conard is Coordinator for Defense Savings Bonds in the Navy Department, and under his direction campaigns for the sale of these bonds throughout the Naval establishments have achieved impressive results. He is familiar with the Pay Roll Savings Plan in operation in the Treasury Department, and is, in every way, competent and qualified to undertake the important task of leadership contemplated by the proposed Executive Order. I am informed that his designation in the proposed Executive Order meets with the approval of the Secretary of the Navy.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

n. m. c.
file to Thompson
By Messenger *Sturgis 5:31 pm.*

THE SECRETARY OF THE NAVY
WASHINGTON

April 1, 1942

My dear Henry:

This will acknowledge receipt of yours of March 31 enclosing a copy of a proposed executive order establishing the Interdepartmental Committee for the Voluntary Pay Roll Savings Plan for the Purchase of Defense Savings Bonds.

I am very much delighted that the good work done by Admiral Conard in the Navy Department has resulted in this well deserved recognition from you and from the President. I will be very glad, indeed, to acquiesce in the selection of Admiral Conard for Chairman of the proposed committee. I assume that he will want to take with him, as his assistant, Commander Eubank, who has been associated with him here in the Department in this work. To lose both of these men from our program will be a serious loss, but I will try to find some way to fill the gap.

Sincerely yours,

Frank Knox

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

EXECUTIVE ORDER

ESTABLISHING THE INTERDEPARTMENTAL COMMITTEE FOR THE
VOLUNTARY PAY ROLL SAVINGS PLAN FOR THE PURCHASE OF
DEFENSE SAVINGS BONDS

WHEREAS it daily becomes more apparent that victory will require the fullest participation of all of the people in our war effort, and that the purchase of Defense Savings Bonds constitutes a direct and effective participation;

WHEREAS every purchaser of Defense Savings Bonds invests not only in the success of the Nation's common cause, but also in his own personal security and independence; and it is, therefore, to the manifest advantage of both the Government and every citizen that the sale of Defense Savings Bonds should be facilitated; and,

WHEREAS employers and employees in many business and industrial enterprises, as well as some Governmental activities, have developed, and are maintaining, with notable success, programs that provide for the purchase of Defense Savings Bonds through regular, voluntary pay allotments; and it is proper that all civilian employees and officers in the executive branch of the Government should be afforded equal opportunity for voluntary participation in such systematic purchase programs;

NOW, THEREFORE, by virtue of the authority vested in me by the Constitution and the Statutes of the United States as President of the United States, it is hereby ordered as follows:

1. There is hereby established the Interdepartmental Committee for the Voluntary Pay Roll Savings Plan for the Purchase of Defense Savings Bonds (hereinafter referred to as the Committee). The Committee shall consist of Rear Admiral Charles Conard, Supply Corps, United States Navy, Retired, who shall serve as Chairman, and the head of each of the several departments, establishments, and agencies in the executive branch of the Government. Each member of the Committee, other than the Chairman, may designate an alternate from among the officials of his department, establishment, or agency, and such alternate may act for such member in all matters relating to the Committee.

2. The Committee shall perform the following functions and duties:

a. Formulate and recommend to the several departments, establishments, and agencies in the executive branch of the Government a uniform plan whereby all civilian officers and employees may systematically purchase Defense Savings Bonds through voluntary pay allotments.

b. Assist the several departments, establishments, and agencies in the adoption of said voluntary pay allotment plan and in the solution of any special problems that may develop in connection therewith.

- 3 -

c. Act as a clearing house for the several departments, establishments, and agencies in the dissemination of such statistics and information relative to the execution of the plan as may be deemed advantageous.

d. Recommend to the several departments, establishments, and agencies any improvements in the program adopted pursuant to said plan.

3. In each of the departments, establishments, and agencies in the executive branch of the Government which has not heretofore adopted a program of the character contemplated by this Executive Order there shall be instituted and set in operation as soon as may be the plan recommended by the Committee, with such modifications as particular circumstances may render advisable. Each Committee member shall act as liaison officer between the Committee and his department, establishment, or agency with regard to said plan.

THE WHITE HOUSE

April , 1942

TREASURY DEPARTMENT

94

INTER OFFICE COMMUNICATION

DATE April 7, 1942.

TO The Secretary
FROM Harold Graves

Herewith I hand you a memorandum from Mr. Pehle regarding the stock of the Santa Fe Railroad which is under Government control.

You will recall that this matter came up in connection with some supposed difficulties which have arisen in the Santa Fe Railroad's payroll allotment plan.

TREASURY DEPARTMENT

95

INTER OFFICE COMMUNICATION

DATE

April 30, 1942

TO Mr. Graves
FROM Mr. Pehle

**Re: Stock Holdings in Atchison, Topeka
and Santa Fe Railroad.**

The following information is furnished at your request.

Atchison, Topeka and Santa Fe Railroad -

Common Stock - Amount held by foreign nationals is
3½%. Approximately one-half of this 3½% is owned
by nationals of the Netherlands, Canada and the
United Kingdom.

Preferred Stock - Amount held by foreign nationals
is 2%. Most of the 2% is held by nationals of the
United Kingdom.

Nationals of Germany, Italy and Japan have very small hold-
ings in either preferred or common stock of the railroad.



Treasury's Anti-Labor Blast Suppressed by Morgenthau

Secretary Recalled Transcriptions of Program
Dramatizing Scripps-Howard Editorial in 40-Hour-Week Fight

By KENNETH G. CRAWFORD
PM's Bureau

PM WASHINGTON, Apr. 7.—Treasury Secretary Morgenthau intervened personally last week to suppress an antilabor broadcast arranged and approved by the Treasury's Defense Savings division.

The broadcast was a dramatization of the rip-roaring labor-is-to-blame-for-almost-everything editorial recently published by the Scripps-Howard newspapers. It was written by E. T. Leech, editor of Scripps-Howard's Pittsburgh Press, and carried by all members of the chain.

Many other newspapers have reprinted the editorial. It has been a hot coal in the fire under the 40-hour week. Because it harped on the theme that labor was hopelessly avaricious, it probably will enjoy still further national circulation.

The broadcast—one of the highly successful series put on by Treasury bond salesmen—was made before Morgenthau found out about it. Several renowned movie actors including Fredric March and Janet Gaynor played parts. It was transcribed for broadcast by local stations throughout the country.

Morgenthau Steps In

Morgenthau immediately ordered the recall of the transcriptions.

It is understood that one station in Cleveland used the records either because it failed to get the recall order or because it ignored it. The Treasury has announced that the records were recalled for "revision." However, the best available information indicates that the program will be junked rather than revised.

The program opened with the voice of a laboring man demanding higher wages, shorter hours and less work. Other voices joined in. Employers demanding greater profits joined when that theme became a chorus. But it was labor's demands that got the most attention.

In places the program followed closely the editorial, which said:

"We will not get maximum production . . . Unless, first, we fully realize our awful peril and, second, get over the gimmes of recent years.

Labor Misrepresented

"Gimme shorter hours, gimme higher wages, gimme bigger profits, gimme more overtime, gimme less work, gimme more pensions, gimme greater crop benefits, gimme more appropriations and patronage, gimme plants for my Congressional district, gimme fees and dues to work for Uncle Sam, gimme ham 'n' eggs, gimme share-the-wealth, gimme \$30 every Thursday.

"France had the gimmes, too—had them till the Germans were close to Paris. Then everybody went frantically to work—too late.

"France has no gimmes today—except gimme food for my baby, gimme a place to lay my head, gimme death."

Just who was responsible for the program was not disclosed. The Treasury is full of Old Dealers, some of whom apparently tried to put over an antilabor broadcast at Government expense without Morgenthau's knowledge.

The fact is that labor organizations have been the most enthusiastic supporters of the Government's bond program. Hundreds of union members have authorized deductions from their pay to buy bonds. The Treasury's only trouble at the moment, it is understood, is with recalcitrant employers who balk at checking off the bond purchase money.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Five Business Days of April, March and February 1942
(April 1-6, March 1-6, February 1-6)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	April	March	February	April	March	April	March
				over March	over February	over March	over February
Series E - Post Offices	\$ 16,436	\$ 20,228	\$ 25,467	-\$ 3,792	-\$ 5,239	- 18.7%	- 20.6%
Series E - Banks	<u>48,680</u>	<u>54,304</u>	<u>98,234</u>	- <u>5,624</u>	- <u>43,930</u>	- <u>10.4</u>	- <u>44.7</u>
Series E - Total	65,115	74,532	123,701	- 9,417	- 49,169	- 12.6	- 39.7
Series F - Banks	9,400	9,768	19,116	- 368	- 9,348	- 3.8	- 48.9
Series G - Banks	<u>36,773</u>	<u>52,758</u>	<u>91,087</u>	- <u>15,985</u>	- <u>38,329</u>	- <u>30.3</u>	- <u>42.1</u>
Total	<u>\$111,289</u>	<u>\$137,058</u>	<u>\$233,904</u>	- <u>\$25,769</u>	- <u>\$96,846</u>	- <u>18.5%</u>	- <u>41.4%</u>

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

April 7, 1942.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - April, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
April 1942									
1	\$ 2,476	\$ 10,517	\$ 2,380	\$ 9,608	\$ 22,504	\$ 12,993	\$ 2,380	\$ 9,608	\$ 24,980
2	2,999	8,264	2,119	7,570	17,953	11,263	2,119	7,570	20,953
3	3,222	7,572	1,185	6,235	14,992	10,794	1,185	6,235	18,214
4	2,778	9,292	1,387	5,334	16,013	12,070	1,387	5,334	18,790
6	4,961	13,035	2,329	8,027	23,391	17,996	2,329	8,027	28,352
Total	\$ 16,436	\$ 48,680	\$ 9,400	\$ 36,773	\$ 94,853	\$ 65,115	\$ 9,400	\$ 36,773	\$111,289

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

April 7, 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.

APR 7 - 1942

Dear Mr. McConnell:

On March 6, 1942, I discussed with you the operation of the affairs of General Aniline and Film Corporation. I pointed out that the Treasury Department would not try to run an industrial company, but wanted to be sure that the affairs of General Aniline were in the hands of competent men of both technical training and business experience capable of operating the affairs of the company in a business-like manner.

At that time I indicated my desire that those chosen to manage the affairs of the company take into account at all times the fact that (1) the United States is at war; and (2) that it is the intention and desire of the Government as the company's principal stockholder, and presumably of all other stockholders, that the activities and facilities of the company are to be applied to the fullest extent to the war effort.

You agreed to suggest without delay a Board of Directors of not more than four who in your judgment

would be well qualified to conduct the affairs of the company along these lines.

Accordingly, the following were suggested by you:

Dr. Robert E. Wilson

Mr. George M. Moffett

Dr. Edward R. Weidlein

Mr. A. E. Marshall

A meeting was arranged for me with Mr. Moffett, Dr. Wilson and Dr. Weidlein for 11 o'clock on March 9. At that time we came to a general understanding both as to the fact that you would assume the presidency of the company when elected as such by a new Board of Directors (to include Mr. Moffett and Dr. Wilson) and as to the general policies to be pursued in the operation of the company.

Now that the new Board of Directors, composed of yourself, Mr. Moffett, Dr. Wilson and Mr. Marshall, has been elected, and you have been selected by them as Chairman of the Board and President, I wish to confirm officially to you and your Board the substance of my

- 3 -

earlier discussions with you, as outlined above. I might also repeat what I have said before to the effect that the new Board of Managing Directors is to have complete authority and control of the selection of competent Americans to restaff the company, and that the company, both during and after its Americanization, is to be run in all ways in accordance with sound American business methods.

I might say to you that this letter has the approval of Mr. Leo Crowley, Alien Property Custodian.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. R. E. McConnell,
President,
General Aniline & Film Corp.,
230 Park Avenue,
New York, New York.

Read to Leo Crowley over telephone and approved
4/7/42 - 3:20 p.m. per E. H. F., Jr.

JJO'C:mdm
4/6/42

APR 7 - 1942

Dear Mr. McConnell:

On March 6, 1942, I discussed with you the operation of the affairs of General Aniline and Film Corporation. I pointed out that the Treasury Department would not try to run an industrial company, but wanted to be sure that the affairs of General Aniline were in the hands of competent men of both technical training and business experience capable of operating the affairs of the company in a business-like manner.

At that time I indicated my desire that those chosen to manage the affairs of the company take into account at all times the fact that (1) the United States is at war and (2) that it is the intention and desire of the Government as the company's principal stockholder, and presumably of all other stockholders, that the activities and facilities of the company are to be applied to the fullest extent to the war effort.

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- 3 -

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Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Mr. R. E. McConnell,
President,
General Aniline & Film Corp.,
230 Park Avenue,
New York, New York.

JJO'C:mdm
4/6/42

Read to Leo Crowley over telephone and approved
4/7/42 - 3:20 p.m. per E. H. F., Jr.

APR 7 1942

Dear Mr. Ambassador:

I am glad to receive your letter of March 24, 1942 transmitting to me a message from Dr. H. H. Kung regarding the Wood Oil Loan. I appreciate your generous words recalling the situation at the time when the Wood Oil Loan was granted to China. As you know, the fight of the Chinese people for their independence and freedom has always had my admiration and support, and it has been a source of great satisfaction to me to be of some assistance.

The difficulties which the Chinese Government has had to overcome in repaying this loan and the benefits derived by the American people from this loan are deeply appreciated by myself and the other members of the United States Government.

I am enclosing a message which you will kindly forward to Dr. Kung in reply to his message to me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,
The Ambassador of the
Republic of China,
Washington, D. C.

Enclosure

IEP/efs
4/6/42

*Photo file M.M.C.
File to D. & W. L. P.
By Messenger Brown
4:25*

Return to Secretary's office

APR 7 1942

To: Dr. Kung

From: Secretary of the Treasury

Your telegram of March 21, 1942 informing me that you have authorized the Universal Trading Corporation to hand over the last installment necessary for the complete repayment of the Wood Oil Loan of February 8, 1939 was transmitted to me by Ambassador Hu Shih.

You, Mr. K. P. Chen and the other members of the Chinese Government who are responsible for the splendid record which China has in the repayment of this loan have acted in a manner in accordance with the honorable tradition of China and its Government in its relations with the United States.

187/et
4/7/42

By Messenger

CHINESE EMBASSY
WASHINGTON, D. C.

March 24, 1942

My dear Secretary:

It gives me great pleasure to transmit to you the telegraphic message from Dr. H. H. Kung in which he informs you that he has authorized the Universal Trading Corporation to pay the last installment necessary for the complete repayment of the Wood Oil Loan of February 8, 1939. The proceeds from the sale of wood oil have enabled the Chinese Government to liquidate its obligations almost two years ahead of the schedule.

In the absence of Mr. K. P. Chen who originally negotiated this loan, I cannot help adding a few words to express my profound personal appreciation of your great kindness and that of Secretary Jones in recommending to the President the granting of this first loan to China at a time when the fortunes of the war seemed to be desperately against the Chinese people.

This loan, which was signed on February 8, 1939, was announced to the public on December 16, 1938. But, as you may recall, the granting of the loan was actually communicated to Mr. K. P. Chen and myself by you on the evening of October 25, 1938, - which was the day after

the evacuation of Hankow, the first provisional capital, and three days after the loss of Canton. The loss of Canton and Hankow meant that China from that time on had to fight a long and most difficult war from her new military bases in Western China without any direct access to the sea. The Burma Road had not been completed. And France was under strong pressure from Japan to close the French Indo-China Railway to Chinese war materials. China's outlook of the war was very black indeed.

Both Mr. Chen and I were greatly disheartened that day when a message came from you inviting both of us to a cocktail party at your residence in the evening.

When we arrived at your house, there were no signs of a cocktail party. If I recall correctly, you said to us: "The arrangements for the first loan to be secured on wood oil were completed this morning and Mr. Jesse Jones has approved them. We both recommended to the President that the loan be granted to China. The President said that he would be glad to authorize the loan; but, because of the bad news of the war of the last few days, he would like to have some assurance from the Chinese Government that there will be no change of the Chinese Government's policy of continuous resistance to aggression. The President will authorize the loan when such assurance is obtained from the Chinese Government."

Mr. Chen and I, without waiting for the cocktails, withdrew and immediately sent a joint confidential telegram to Generalissimo Chiang Kai-shek and Dr. H. H. Kung informing them of this important and heartening news. Because of the absence of the Generalissimo from Chungking, this assurance from our Government did not come until November 10th. In the meantime, the details of the Wood Oil Loan were being worked out between Mr. K. P. Chen and the experts of the Treasury and the Export-Import Bank. The loan was announced in December and finally signed on February 8, 1939.

I record these circumstances in order to recall to you the historical fact that this first important loan was one of the few factors which helped the Chinese Government in its determination to fight on for many years to come. For this generous gesture on the part of the American Government furnished China with the most convincing proof that she had not been deserted by her friends in her darkest hours of defeat and distress. The moral effect of this first loan cannot be over-stated by future historians.

In conclusion, I am very happy to know that China has been able to repay this friendly assistance, not only by her faithful fulfilment of the obligations under the terms of the first and subsequent loan agreements, but also by

supplying under most difficult conditions a large amount of strategic materials to the American Government and public. These loans have brought our two peoples more closely together in our common fight against aggression and international anarchy.

With renewed assurances of highest esteem, I remain

Yours sincerely,

Hu Shih

Hu Shih

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

White
1/24/42

TELEGRAM TO
MR. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY
FROM
DR. H. H. KUNG, MINISTER OF FINANCE
CHUNGKING, MARCH 21, 1942

I am happy to inform you that I have authorized the Universal Trading Corporation to hand over the last instalment necessary for the complete repayment of the Wood Oil Loan of February 8, 1939. While the terms of the Agreement do not require full liquidation of obligation until January 1, 1944, sufficient funds have accumulated to make it possible at this time.

May I say that the Universal Trading Corporation's action is an indication of China's determination to maintain its traditional policy of faithful fulfillment of all its obligations. I shall also like to take this opportunity of expressing our deep appreciation for United States financial assistance to China which has been all the more welcome because of its timeliness.

H. H. Kung

THE UNDER SECRETARY OF STATE
WASHINGTON

April 7, 1942

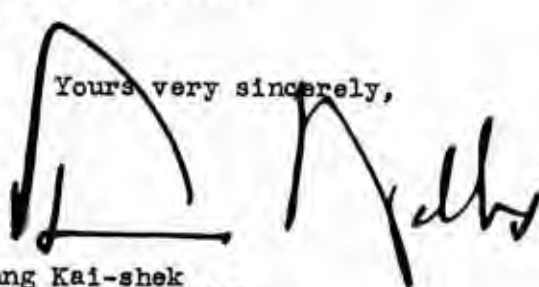
Personal and
Confidential

Dear Henry:

I am enclosing a copy of a letter which the President has addressed, under date of April 4, to the Generalissimo with regard to the repayment of the first twenty-five million dollar loan. You will remember you spoke to me about this at the last Cabinet meeting. Many thanks for your very helpful suggestion.

Believe me

Yours very sincerely,



Enc.

To General Chiang Kai-shek
from President, April 4, 1942

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

April 4, 1942

My dear General Chiang:

The recent notification which we received through the Chinese Ambassador of arrangements for completion of the repayment of the Wood Oil Loan of February 8, 1939, in advance of the schedule provided for in the contract and entirely from the receipts of the wood oil exported to this country, has caused this Government much gratification. I want you to know that we appreciate the attitude of the Chinese Government in making provision for completing repayment of the loan in question during these times when the resources of your country are being so severely taxed. The splendid tradition which is being built up by your Government in its financial relations with us is one of which we, as friends and partners of China, can be as justly proud as you must be.

Very sincerely yours,

FRANKLIN D. ROOSEVELT

General Chiang Kai-shek,
Chairman of the Executive Yuan
of the National Government
of the Republic of China,
Chungking, China.

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April 7, 1942

114

Mr. Livesey

Mr. D. W. Bell

Referring to telephonic conversation, will you please send the following telegram to the American Embassy, London:

"From Treasury.

1. The United States Treasury has been informed that the British Government has agreed to the negotiation of dollar telegraphic transfers, checks drawn on the Treasurer of the United States and the sale of United States currency for official purposes at the rate of \$4.03-1/2 per pound net in the sterling area. To facilitate this program, the following procedure is suggested.

2. All United States dollar checks drawn on the Treasurer of the United States negotiated by the London branches of the National City Bank of New York, the Guaranty Trust Company of New York, the Chase National Bank of the City of New York and the Bank of England, London, respectively are to be delivered to the American Embassy, London, accompanied by list in triplicate with complete description of each check as follows: name of drawer; symbol number; check number; amount; payee's name; date of check.

Consular officer will carefully verify checks against list and advise Treasury by telegram through the State Department aggregate amount of checks delivered by each bank. Upon receipt of this advice Treasury will effect payment in corresponding amount to the New York offices of the National City Bank of New York, the Guaranty Trust Company of New York and the Chase National Bank of the City of New

York respectively and to the Federal Reserve Bank of New York in the case of the Bank of England.

Consular officer should instruct the respective banks to use all possible diligence in identification of payee and determining validity of endorsements. The respective banks should endorse checks as follows: Quote Pay to the order of the Treasurer of the United States for credit of our account with (name of bank). Signed (name of bank), London, England. Unquote. Treasury will look to the respective banks only for usual guarantee under laws applicable in England.

Consular officer should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by safest means available. Second copy of list should follow by separate carrier at earliest possible date. Third copy should be retained by consular officer.

3. In the case of excess United States paper currency, instruct the banks mentioned above to prepare list in quadruplicate showing amount of each denomination of each kind of currency separately, and for Federal Reserve notes and for Federal Reserve Bank notes the list must show separately the amount of each denomination of the issue of each bank, cut currency in half vertically and stamp or write name of bank on each half in ink. Then deliver both halves and list in quadruplicate to American Embassy, London.

4. Consular officer will verify amount of currency delivered to him against list prepared by bank and then he will telegraph

Treasurer of United States through State Department the amount of currency delivered to him. When Treasury receives this advice payment in corresponding amounts will be made as outlined in paragraph number 2. Upon receipt and examination Treasury reserves right to claim reimbursement for any currency which is not genuine. Each set of halves should be forwarded by separate carrier accompanied by a copy of the list. The third copy of list should be forwarded by still another carrier. American consular officer will retain fourth copy of list.

5. Consular officer should make no arrangements for insurance as shipments of both checks and currency will be covered by Government Losses in Shipment Act.

6. The Bank of England, London, is hereby designated a depository of public monies of the United States in order to carry out the procedure outlined in this telegram.

7. Please advise the respective banks and other United States Government officials of appropriate parts hereof.

8. In order to keep the number of telegrams dispatched to a minimum it is suggested, if convenient, that the respective banks deliver to the Embassy their accumulation of checks and currency on the same day each week and that the Treasury be advised in a single telegram of the individual amounts of checks and currency received from each bank.

- 4 -

9. To minimize number of checks drawn on Treasurer of United States suggest that you advise disbursing officers that they should telegraph through their respective departments their local currency requirements. Arrangements will then be made to advance dollar credits to their bank of deposit."

The Department approves the foregoing. Any expense incurred in carrying out the instructions contained in this telegram should be included in regular accounts as separate item for billing Treasury in accordance with Sec. V - 45, Foreign Service Regulations.

FD:dm:4/7/42

TELEGRAM SENT

PH

GRAY

April 7, 1942

9 p.m.

AMEMB..SSY

LONDON (ENGLAND)

1440

For Casaday from the Secretary of the Treasury.

QUOTE. In reply to your 1313 of March 19, containing inquiry regarding commitments on credit to Russia, this question is a Lend-Lease and Army matter, and any inquiry regarding it should be addressed to the Lend-Lease Administration.

WELLES
..CTING
(FL)

FD:FL:BMcB

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PARAPHRASE OF TELEGRAM SENT

119

TO: American Commissioner, New Delhi, India
DATE: April 7, 1942, 11 p.m.
NO.: 106

The Department has been informed by the National City Bank of New York that the Bombay branch of the Bank will be continued.

This telegram should be repeated to Bombay as no. 120 of the Department.

WELLES
Acting

eh:copy
4-9-42

April 7, 1942

Mr. Liversy

Mr. D. W. Bell

Referring to telephonic conversation, will you please send the following telegram to the American Consul, Belfast, Northern Ireland:

From Treasury.

1. The United States Treasury has been informed that the British Government has agreed to the negotiation of dollar telegraphic transfers, checks drawn on the Treasurer of the United States and the sale of United States currency for official purposes at the rate of \$4.03-1/2 per pound net in the trading area. To facilitate this program, the following procedure is suggested.

2. All United States dollar checks drawn on the Treasurer of the United States negotiated by the Northern Bank Limited, Belfast, are to be delivered to the American Consul, Belfast, accompanied by list in triplicate with complete descriptions each check as follows: Name of drawer; symbol number; check number; amount; payee's name; date of check.

Consular officer will carefully verify checks against list and advise Treasury by wire through State Department aggregate amount of checks delivered by bank. Upon receipt of this advice, Treasury will effect payment in corresponding amount to the New York correspondent of the Northern Bank Limited. Please include in your first telegram name of New York correspondent to whom payments are to be made.

-3-

Consular officer should instruct Northern Bank Limited to use all possible diligence in identification of payee and determining validity of endorsements. Northern Bank Limited should endorse checks as follows: Quote Pay to the order of the Treasurer of the United States for credit of our account with (name of bank). Signed Northern Bank Limited, Belfast. Unquote. Treasury will look to Northern Bank Limited only for usual guarantee under laws applicable in Northern Ireland.

Consular officer should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by safest means available. Second copy of list should follow by separate carrier at earliest possible date. Third copy should be retained by consular officer.

3. In the case of excess United States paper currency, instruct Northern Bank Limited to prepare list in quadruplicate showing the amount of each denomination of each kind of currency separately, and for Federal Reserve notes and for Federal Reserve Bank notes, the list must show separately the amount of each denomination of the issue of each bank, cut currency in half vertically and stamp or write name of bank on each half in ink. Then deliver both halves and list in quadruplicate to American Consul, Belfast.

4. Consular officer will verify amount of currency delivered to him against list prepared by bank and then he will wire Treasurer of United States through State Department the amount of currency

delivered to him. When Treasury receives this advice, payment in corresponding amount will be made to the New York correspondent of the Northern Bank Limited. Upon receipt and examination Treasury reserves right to claim reimbursement for any currency which is not genuine. Each set of halves should be forwarded by separate carrier accompanied by a copy of the list. The third copy of list should be forwarded by still another carrier. American consular officer will retain fourth copy of list.

5. Consular officer should make no arrangements for insurance as shipments of both checks and currency will be covered by Government Losses in Shipment Act.

6. The designation of the Northern Bank Limited, Belfast, as a depository of public monies of the United States is hereby extended to carry out the procedure outlined in this telegram.

7. Please advise Northern Bank Limited, Belfast, and other United States Government officials appropriate parts hereof.

8. To minimize number of checks drawn on Treasurer of United States, suggest that you advise disbursing officers that they should cable through their respective departments their local currency requirements. Arrangements will then be made to advance dollar credits to the Northern Bank Limited, Belfast."

The Department approves the foregoing. Any expense incurred in carrying out the instructions contained in this telegram should be included in regular accounts as separate item for billing Treasury in accordance with Sec. V - 48, Foreign Service Regulations.

FD:dm:4/7/42

BANCO CENTRALE DE RESERVA DE EL SALVADOR
REPUBLICA DE EL SALVADOR, CENTRO AMERICA

San Salvador, April 7, 1942

Refer 98/748

Federal Reserve Bank of New York
New York, U.S.A.

Dear Sirs:

The ratio of our gold reserve to our sight liabilities dropped to 41.95% as of March 31, 1942. According to the law our gold reserves should currently not fall below 30%.

As we expect that the same circumstances responsible for the drop in the ratio of reserves may prevail for some time entailing a further drop, and as the balance of payments may continue in our favor and we wish to maintain the U.S. dollar rate of exchange at the same level, we have decided to strengthen our gold reserve and for this purpose we should be much obliged to you if you would kindly buy for our account 71 standard gold bars of approximately 400 fine ounces each.

/see
note

We wish that this gold be held by you under earmark for our account. Please obtain the necessary licenses.

Thanking you in advance for your cooperation in this matter.

We are, dear sirs,

Very truly yours,

Banco Centrale de Reserve de el Salvador

(sgd.) Louis Alfaro Duran,
President

(sgd.) V. Manuel Valdes,
Secretary

Received by telephone from Federal Reserve Bank of New York -
4/13/42

Enc. Note: Approximately \$1,000,000

C
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YDEPARTMENT OF STATE
WASHINGTON

In reply refer to
Le 740.00113 European
War 1939/334

April 7, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and having reference to his communication of March 23, 1942 transmits for the information of the Secretary of the Treasury a copy of a telegram dated April 1, 1942, received from the American Legation at Bern, Switzerland transmitting a further summary of Thai legislation on the control of enemy persons and property.

Enclosure:

Telegram from Bern
April 1, 1942.

COPY

AS

PLAIN

Bern

Dated April 1, 1942.

Rec'd 3:33 a.m., 2nd

Secretary of State,
Washington.

1310, First.

AMERICAN INTERESTS THAILAND.

Legation's 1088, March 17.

According telegram March 23 from Swiss Consul, Bangkok; date act BE 2484 is December 26, 1941 and act BE 2485 is February 13, 1942 date act BE 2485 previously incorrectly reported as December 26, 1941 correct date is February 20, 1942 and supplements BE 2485.

Delete fourth paragraph Legation's 1088, March 17 which now appears to be summary of act BE 2484 duplicated more at length in first paragraph.

Text act BE 2485 and supplement is as follows (original in English): one act dealing with enemy nationals and their properties BE 2485 of February 13, 1942.

Sections 1 and 2 — definitions.

Section 3, in this law "enemy nationals" means persons whom the Minister of Interior has named and specified as enemy nationals as in the following classes: (A) persons whose domiciles are in the territories of the country or possessions at war with Thailand, (B) persons who are nationals of the country and possessions at war with Thailand, (C) partnerships, associations or foundations controlled by enemy nationals.

Section 4. It is prohibited to have any connection with enemy nationals unless permission has been received from the competent official.

Section 5. Enemy nationals are forbidden to possess firearms, explosives, radio apparatus, secret communicating instruments and also alarm signal or code.

Section 6. The competent official shall fix the place where the enemy nationals are to be confined or may intern them in any compound.

Section 7. With regard to the properties of the enemy nationals measures have to be taken in accordance with the provisions of the law dealing with the control and management of business or properties of aliens of certain categories in time of emergency.

Section 8. Whosoever fails to comply with the provision of section 4 of this act shall be liable to a fine not exceeding baht ten thousand or an imprisonment not exceeding three years or both.

- 2 -

Section 9. Whosoever fails to comply with the provision of section 5 of this act shall be liable to a fine not exceeding baht fifty thousand or an imprisonment not exceeding ten years or both.

Section 10. Enemy nationals whosoever who leave the area of the compound where the competent officials fixed for them to stay or in which they are confined without the permission of the competent official shall be liable to a fine not exceeding baht five thousand or an imprisonment not exceeding two years or both.

Section 11. The Ministers of Interior and of Economics are to see that it is carried out in accordance with this act and have also power to appoint competent officials to carry out in accordance with this act 2 dealing with enemy nationals and their properties number 2 BE 2485 of February 20, 1942.

Section 1 definitions.

Section 2 concerns publication.

Section 3 the following provision shall be added to the act dealing with enemy nationals and their properties BE 2485 as section 7 supplement: properties of enemy national whosoever who escapes from the Kingdom leaving his property behind shall become properties of state.

HARRISON

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 102.102/568

April 7, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits copies of telegram no. 251, dated April 6, 1942, noon, from the American Embassy, Montevideo, for Pehle, Treasury, from Towson, concerning proposed visit to Puerto Rico and the Virgin Islands to discuss freezing control problems.

Enclosure:

Copies of telegram no. 251,
dated April 6, 1942, from
Montevideo.

eh:copy
4-8-42

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

Montevideo

Dated April 6, 1942

Rec'd 12:48 p.m.

Secretary of State,

Washington.

251, April 6, noon.

FOLLOWING FOR PEHLE TREASURY FROM TOWSON.

Your 471, April 4, 3 p.m.

Suggest following arrangements: on present
schedule will arrive Trinidad evening of April 17.
Can proceed directly to Puerto Rico arriving there
next day. This will eliminate return visit of three
days in Caracas on present itinerary. Suggest stay
in Puerto Rico one week proceeding on Sunday April 26
to Saint Thomas. Leave Saint Thomas May 2 for Miami
arriving Washington May 4. Would appreciate receiving
your confirmation particularly with respect to
elimination Caracas return and proposed length of
stay in Puerto Rico and Virgin Islands before I pro-
ceed to make new plane reservations which I will en-
deavor to do here.

It would be most helpful if you could arrange
to have Peden meet me in San Juan in order that he

may bring me up

-2- #251, April 6, noon, from Montevideo.

may bring me up to date on recent developments in Spanish situation which is urgent in Puerto Rico, possible Danish complications in Virgin Islands, plans with respect to alien property control in each place, data on foreign holdings in each place and other pertinent information, with respect to all of which I am out of touch. As I feel sure these matters will form important topics in proposed conversations, urge that he be sent with indicated information. He would also be of great assistance to me during conferences.

Charge Treasury.

DAWSON

WSB

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 7, 1942.

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£60,000
Purchased from commercial concerns	£55,000

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

The Canadian dollar closed at a discount of 13-1/8%, as against 13% last night.

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

Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	3/32% premium

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Central Reserve Bank of Peru shipped \$169,000 in gold from Peru to the Federal for its account, disposition unknown.

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

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

We made no purchases of silver today.



BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 114

Information received up to 7 A.M., 7th April, 1942.

1. NAVAL

H.M. Destroyer HAVOCK ran aground on the sixth on the North East Coast of TUNISIA. As it was impossible to refloat her, she was destroyed. A Dutch tanker has been torpedoed and sunk when on passage to CURACAO. A British merchant vessel reported being shelled by an enemy submarine off COLOMBO on the sixth.

2. MILITARY

BURMA. IRRRAWADDY Front: During 3rd and 4th enemy aircraft continued dive bombing and machine gunning our troops and transport causing about one hundred fatal casualties in one brigade. During night 3rd/4th a further withdrawal was made without any enemy ground interference. Demolitions have been carried out successfully in the THAYETMAYO area.

3. AIR OPERATIONS

WESTERN FRONT. 5th/6th. 178 tons of H.E. and 67 tons of incendiaries were dropped on COLOGNE and the area. Several large fires were started but generally observation was prevented by cloud. At HAVRE eighteen tons were dropped and bombs were seen to burst across the docks. At GENNEVILLIERS where nineteen tons were dropped, good fires were reported as a result of the attack on the Gnome-Rhone Factory. Two of our aircraft crashed, not three. A Wellington destroyed one enemy night fighter. 21 R.C.A.F., 21 R.A.A.F. and 12 New Zealand aircraft took part. Two New Zealand aircraft were among those lost.

6th/7th. 157 aircraft were sent to attack ESSEN. Preliminary reports indicate that operations were severely hampered by storms. Five aircraft are missing.

MALTA. 5th/6th and 6th. Attacks by a total of nineteen aircraft caused no damage.

CONFIDENTIAL

(Classification)

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ENCLOSURES

Copy No.

(For Internal Section Only)

MILITARY INTELLIGENCE DIVISION W. D. G. S.

N.Y. Office, M.I.S.

~~XXXXXXXXXXXX~~

MILITARY ATTACHE REPORT

(British Empire)
Bahrain Island

Subject Material for Strategic Survey

(Country reported on)

N. Y. Office, (Brief descriptive title)

I. G. No.

From M. A. M.I.S.

Report No. 3531

Date April 7, 1942

Source and degree of reliability: British subject, employed as medical officer by the Bahrain Petroleum Co. In the middle fifties, of moderate intelligence. Considered reliable.

SUMMARY.—Here enter careful summary of report, containing substance succinctly stated; include important facts, names, places, dates, etc.

Water approaches. Possibility of air-borne invasion. Nature of soil. Climate. Water supply. Road net-work. Loading and unloading oil terminals. Air-field on island of Muharrap. Hospitals. Prevalent diseases.

Population pro-British. Activity of German spies.

Oil production.

Reservations.

LE:deR

Distribution by originator

Routing space below for use in M. I. D. The section indicating the distribution will place a check mark in the lower part of the recipient's box in case one copy only is to go to him, or will indicate the number of copies in case more than one should be sent. The message center of the Intelligence Branch will draw a circle around the box of the recipient to which the particular copy is to go.

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A. C. of S. G-3	CHIEF OF STAFF	MA Sec.	PL Sec.	Sec. Sec. 2	Trans. Sec.	CH	SEC	SEC	SEC	Int. Sec.	Quar. Sec.		Det. of Int. Dir.	Coord. of Int.
AS 1	QR 1	CR	RE	EE	WE	FE	LA	SL	Cont.	Dissem.	Field Pers. 1	ASW	USW	ASWA

CHIEFS OF ARMS AND SERVICES

Inf.	Cav.	FA	CAC	AC	AAF 2	Sig.	Armed.	Ord.	QM	CWS	Med.	Engr.	Fin.
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Attached at	CG Pers.	CG Pers.	CG Pers.	Ed. of Econ. Part. (1)			
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Enclosures:

CONFIDENTIAL

(Classification)

CONFIDENTIAL

Source arrived in New York on March 22nd, 1942, having flown from Bahrain, where he has resided for the last five years.

Shallow water and numerous reefs render the approach to Bahrain by sea, from all directions, relatively hazardous. There are no port facilities at Manama, and ships have to anchor several miles off-shore in an open and unprotected roadstead. An air-force invasion would present less difficulties than a sea-borne invasion, for in addition to the air-field on the island of Muharrap, there are many places on the island where emergency landings can be made. This is particularly true in the southern part of the island, where there are patches of smooth and hard sand.

The highest point of the island is some 125 ft. above sea-level. The nature of the soil is rocky (limestone) in the center of the island, and sandy in the low-lying coastal areas.

During the four winter months the climate of Bahrain is temperate. The hot weather starts in May and lasts until the end of October. The average temperature during those months varies between 108 and 110, with a maximum of 118 degrees Fahrenheit. Humidity is very high, in spite of the low annual rainfall of 2 inches. The "wet months" are November and March.

The water supply comes from artesian wells, often drilled to a depth of 200 feet. Although the water is salty, it is usually safe.

The oil fields are situated in the center of the island. The wells are connected with each other, with the company's camp, refinery and terminals on the East and West coasts, and with the town of Manama, by a good net-work of roads, constructed and maintained by the company.

The loading terminal, which is used by tankers, is at Sitra, a small island near the northern extremity of the East coast. The tankers are moored to a lightly constructed, isolated dock off shore, where six pipe-lines from the storage tanks have their terminals.

At Zeloag, on the West coast, is the unloading terminal for the barges which transport the crude oil from the Arabian mainland. On account of reefs, navigation between Bahrain and the mainland is dangerous, and the oil-laden barges have formerly used a roundabout route. Shortly before source's departure, a new channel, which will reduce the haul very considerably, was discovered and was being marked with buoys.

On the island of Muharrap, which is connected with Bahrain by a causeway, is situated a good natural air-field. The soil is hard sand. The field is used as a base by planes flying to and from India. There are no hangars, but sheds for repair work and for the storage of spare parts have been erected. Buildings, sufficient to accommodate 1000 men, are in the course of construction. Plans for the defense of Bahrain, which will be based on Muharrap, have been elaborated. At present, the only air defenses consist of a half-battery of obsolete anti-aircraft artillery.

East of the causeway connecting the two islands is a relatively sheltered stretch of water, is the sea-plane anchorage.

The Bahrain Petroleum Co. has built and equipped a modern, air-conditioned, 20-bed hospital. It has on hand an 18 months supply of quinine.

The American Mission Hospital, which is organized primarily for the natives, could in case of need accommodate about 10 Europeans. Its rooms and wards, which are not air-conditioned, are provided

CONFIDENTIAL

CONFIDENTIAL

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with electric fans. The hospital is under the direction of a very able American doctor named Harrison.

The Bahrain Government Hospital for natives is nearing completion; when terminated, it could accommodate a few European patients.

In addition to the foregoing, there is the Queen Victoria Hospital, which is merely a small dispensary run by a quarantine doctor.

Malaria is widely prevalent in the island and amoebic dysentery is common among the natives.

The population, except for about 300 Europeans, most of whom are employed by the petroleum company, numbers about 95000. They are all Mohammedans. They are for the most part pro-British, although a Nationalist Party has been recently organized, and succeeded in bringing about a few strikes.

German spies are active. A few months ago there was a disturbance in Manama, the news of which first reached the company's camp a few miles away through the Berlin evening broadcast.

The Bahrain daily crude oil production is approximately 30,000 barrels; the capacity of the refinery, which was completed in 1957, is about 30,000 barrels a day.

Outside of dates in season, and fish the whole year round, there are no resources on the island, which depends entirely on imports. In the past, these came principally from India; they are now beginning to come from South Africa.

FREDERICK D. SHARP,
Lieut. Col., G.S.C.

CONFIDENTIAL



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



134

April 7, 1942

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

Dear Henry:

The attached has just come to us from our
London office. It is the Ministry of Economic Warfare
weekly propaganda digest.

Sincerely,

Bill
William J. Donovan

SECRET
CONFIDENTIAL

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"1. Included among German inspired economic measures to Nazify Europe are:

(a) Ukraine: A system has been imposed that resembles the French revolutionary assignats, new currency will be issued by the new central bank of issue at Rovno; this currency will be called karbovanetz and will be valued at one tenth of a reichs mark, backed by mortgage on real estate;

(b) Latvia: To place entire economic life under Nazi control, a new credit institute Gemeinschaftsbank Ostland has been established;

(c) Former Russian-Poland: Germans have imposed complete Nazi financial control with foreign exchange legislation;

(d) France: There is a system of exemptions from excess profits tax which favors collaborationist enterprises.

"2. In order to increase the food supply for the cities, German agricultural labor will be reapportioned in relationship to the size of farms and intensity of culture. Despite the increase of farm labor by more than one million five hundred thousand prisoners of war and foreigners whose will is not in their work. The Germans are having difficulties with Spanish workers, and they hesitate before the risks of using "undependable" Russians.

"3. Italy:

a. Because of a desperate need for nickel, Italy has withdrawn twenty centesimo coins after having already withdrawn fifty centesimo and one and two lire coins.

b. Ordered that all motor vehicles manufactured before 1930 be confiscated;

c. Obtained one hundred thousand tons of rye from Germany after agreeing to return an equivalent amount of wheat after the harvest.

"4. The cut of German meat, bread and fat rations, effective April 6th, brings meat and bread down to 1914-18 war level at 10½ to 14 ounces of meat weekly and 71 to 80 ounces of bread weekly. However, the fat at 7 to 9½ ounces per week is much higher than the 2 ounces weekly allotted during the last war.

SECRET

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 7, 1942

TO Secretary Morgenthau
FROM Mr. Kamarek
Subject: Monthly Report: Royal Air Force Bombing Activity
in March, 1942

1. Bombing activity of the R.A.F. flared up in March, after the relatively quiet early winter months. Two notable raids occurred in this month: the attack on Paris and the one on the Baltic port of Lubeck. The attack on the Renault plant in Paris exceeded the German bombings of London in tonnage of bombs dropped, a cargo of 477 tons being unloaded by the British.

2. Reports from Sweden indicate that the R.A.F. descent in force upon Lubeck, a city which is seldom bombed, achieved notable results. The following description of the raid, based on confidential British sources, might be of interest:

The attack on Lubeck occurred on Tuesday night and early Wednesday morning, March 28/29. 205 bombers, including 46 heavy four-motor bombers, took part. The sky was clear, with a bright moon and no cloud. The arrival and departure of bombers over Lubeck took place on schedule, like trains passing through a large terminal. The bombers cruised over the town at varying heights, from 1,300 to 17,000 feet.

After the first bombs and incendiaries were dropped, the center of the town blazed up. Some of the later bombers were guided to the target by the fire seen from 100 miles away. Towards the end of the raid, the island center of the town was blazing like one large fire. A machine tool factory was definitely seen to have been flattened out and two other large factories were at least badly damaged.

A total of 163 tons of high explosives, with 146 tons of incendiaries, were dropped, i.e., a rain of well over 100,000 single incendiary bombs. Included in the high explosives were 17 two-ton super-bombs. Very little anti-aircraft was experienced, but a large number of fighters were sent up. Twelve bombers were lost in the operation.

- 2 -

I. <u>Losses</u>	<u>Losses during March</u>	<u>Total Losses in raids to April 1, 1942</u>
R.A.F. bomber losses in bombing raids in Northern Europe	62	1,501
II. <u>Analysis of Targets</u>	<u>Attacks during March</u>	<u>Total Number of attacks to April 1, 1942</u>
ports, docks, shipping	16	1,533
Industrial plants	11	917
Airdromes and seaplane bases	9	880
Oil refineries, synthetic plants and tank farms	1	359
Total of above	37	3,689
III. <u>Leading Cities Attacked</u>	<u>Attacks during March</u>	<u>Total Number of attacks to April 1, 1942</u>
<u>A. Germany</u>		
Cologne (industrial center)	2	97
Bremen (port)	0	87
Hamburg (port)	0	85
Emden (port)	1	72
Wilhelmshaven (port)	0	61
Kiel (port)	1	58
Mannheim (industrial center)	0	57
Berlin (industrial center)	0	50
Essen (industrial center)	3	46
Gelsenkirchen (synthetic oil)	0	43
Hanover (synthetic oil)	0	42
Total of above (11 cities)	7	698
<u>B. Occupied Areas</u>		
Boulogne (port)	1	120
Brest (port)	0	107
Ostend (port)	2	102
Calais (port)	0	79
Flushing (port)	0	63
Lorient (port)	0	52
Total of above (6 cities)	3	523
<u>C. Italy</u>		
Naples (port)	0	24
Turin (industrial center)	0	13
Total of above (2 cities)	0	37

April 8, 1942

MEMORANDUM FOR THE SECRETARY'S DIARY

Senator Truman and Messrs. Foley and Cairns were in the Secretary's Office at 8:45 a.m. today. The Secretary handed to Senator Truman the attached questionnaire for dollar-a-year and w.o.c. men. Senator Truman said that his Committee had been working along the same lines and he thought the Secretary, in his questionnaire, "had something". The Secretary explained he thought it was essential that the boys in the Army and Navy should remain convinced that there was no crookedness in the Government and that the people in Washington were not becoming enriched. Senator Truman said he agreed with him fully.

The Secretary said that Senator Truman could have the questionnaire for what it was worth and that he had not shown it to anyone. Senator Truman said he would be happy to have the Secretary as a partner, but the Secretary replied that so far it was his own personal idea and that the Senator should take the questionnaire for his own purposes.

Attachment.

Huntington Cairns

Date _____

1. Name (print) _____
(First name) (Middle name) (Last name)2. a. Post Office address _____
(Street) (City) (State)b. Legal address _____
(Street) (City) (State)c. Business address _____
(Street) (City) (State)3. Are you a citizen of the United States? _____ If citizenship
was acquired by naturalization, marriage, or through parent, give
particulars, including place, date, and court of naturalization pro-
ceedings of self, spouse, or parent. _____

4. Place of birth _____

5. Date of birth _____

6. Father's name _____

Place of father's birth _____

Mother's maiden name _____

Place of mother's birth _____

Place of spouse's birth _____

Wife's maiden name _____

7. Height _____ Weight _____ Color of hair _____

Color of eyes _____

8. Have you ever made any change or alteration in your name either with
or without legal proceedings? _____ If so, explain in detail _____

9. Indicate below your sex and marital condition by check, thus: ✓

SEX		MARITAL CONDITION			
Male	Female	Single	Married	Divorced	Widowed

10. Are you in good health? _____
11. Explain fully any physical defects or infirmities you may have _____

12.

EDUCATION				
	NAME AND LOCATION	FROM (Year)	TO (Year)	DID YOU GRADUATE?
Elementary				
High school				
College				
Degree obtained				
Business school				
Other training				

13. State briefly experience, techniques, aptitudes, or skills which you believe qualify you for Federal employment.

14. Military and naval record. If any, check (✓) to indicate branch and other information and give dates of enlistment and discharge.

None	Army	Navy	Marine Corps	Const Guard	War Veteran	Pensioner	Veterans' Bureau beneficiary
------	------	------	--------------	-------------	-------------	-----------	------------------------------

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Enlisted _____ Discharged _____ : Enlisted _____ Discharged _____
 Organisation _____ : Organisation _____

15. Have you registered under the Selective Service Act? _____
 Where? _____ What is your classification? _____
16. Have you ever been indicted for, or found guilty by any court of, any crime, either misdemeanor or felony? _____
17. Has any corporation of which you are or have been an officer or director been indicted during the last ten years for violation of Federal law? _____
 If so, state the offense, charged, and the title, place, date, and result of the proceedings. _____

18. Have any civil suits or proceedings been filed by you or against you during the past ten years? _____ If so, state cause, disposition, place, date, and court or tribunal. _____

19. Have you ever been adjudicated a bankrupt, taken advantage of state insolvency laws, or made an assignment for benefit of creditors? _____
 If so, give date, place, title of proceedings, and other particulars. _____

20. Are there any outstanding judgments against you? _____ If so, give details _____
21. If you are a professional man, have you ever been disbarred, had your license suspended or revoked, or been cited for or charged with unethical practices? _____ If so, furnish dates, places, and complete details. _____

22. Names of relatives in the Government Service and where employed _____

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23. Give names, addresses, occupations, and relationships of relatives residing outside the United States. _____

24. Have you used intoxicants to excess or narcotics at any time during the past two years? _____
25. Are you now, or have you been during the past five years, a member of any Communist or German Bund organization or any political party or organization which advocates the overthrow of our constitutional form of government in the United States, or do you have membership in, or any affiliation with, any group, association, or organization which advocates, or lends support to any organization or movement advocating the overthrow of our constitutional form of government in the United States? _____
If so, name the organization _____

26. Give name and address of present employer _____

27. Position held _____ Approximate average salary for last three years (including bonuses and other remuneration) _____
28. How long have you been employed by your present employer? _____
29. If you are in business or practice for yourself, what is the nature thereof? _____ Place _____ Name under which business or practice is conducted _____
30. Net income from such business or practice during last three years _____

31. Do you plan to sever, before accepting a position with the Federal Government or its agencies, all connection with your present employer, business, or practice? _____ If not, state details of any understanding, arrangements, or agreements, including those with respect to compensation during Federal service and with respect to re-employment after termination of Federal service _____

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32. What sources of income, other than from employment or business or practice given above, did you have during the last three years? _____

33. List below all employment, or business, or practice, other than present, during past ten years.

Period	Name of employer, business, or practice	Place	Position

34. Have you ever been dismissed or forced to resign for cause from any employment or office? _____ If so, explain in detail _____

35. List all public offices or employment (Federal, State, or local) held by you during the past ten years.

Period	Office	Place

36. List, with addresses, all corporations or companies in which you are, or have been during the past ten years, a director, trustee, or officer, or in which you hold or have held a similar position. Give position.

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37. List all directorships, trusteeships, offices, or similar positions presently held in any corporation or company by spouse, brothers, and sisters, parents, and children.
-
-
38. List, with addresses, all partnerships of which you are a member general or special. List partners in each partnership.
-
-
39. List name and address of all corporations of which you are the sole stockholder or in which you hold or control a controlling interest.
-
-
40. Attach list of all property (foreign or domestic) in the following categories presently held by you or in which you have a beneficial interest.
- a. Stocks, bonds, and other securities.
 - b. Accounts (other than ordinary trade accounts) and notes receivable.
 - c. Deposits in banks or other deposit institutions (name banks and institutions).
 - d. Real estate (other than living quarters for self and dependents) and give location thereof.
 - e. Mortgages.
 - f. Surrender value of insurance policies (name insurance companies).
 - g. Patents and copyrights.
 - h. Mining and oil claims.
 - i. Stocks or inventories of materials in which the Government might be interested in the war effort.
 - j. Ships or vessels.
 - k. Cash over \$10,000.
41. Do same for your wife and children.
42. Attach list of all creditors, with addresses, and amount of debt (do not include ordinary charge accounts and personal debts of \$5,000 or less).
43. Do same for your wife and children.

44. Have you filed Federal income tax returns during the past five years? Give collector's office and year for each return.

45. Give name and address of all associations, institutes, and organizations (fraternal, trade, labor, industrial, or otherwise, but not political or religious) of which you are, or have been during the past ten years, a member. Indicate those which have any foreign affiliations.

46. If you have been an officer of such association, etc., give office and date thereof.

47. List all your writings which have been published. Give title of publication, date thereof, journal in which it appeared, and any other details that would aid in finding or identifying it. If you have been employed as a regular writer for a publication or journal, give only name thereof and period of such employment.

48. List all reported speeches and addresses giving time and place made and any other details which would aid in finding or identifying them.

49. Are you, or have you ever been, registered as a foreign agent or representative?

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50. Are you registered with the Securities and Exchange Commission? _____
51. Give names of all Government Departments or agencies with which you are registered or are enrolled.

52. To your knowledge, have you ever been investigated by any Federal agency or Congressional Committee? _____
53. Have you ever appeared before a committee of the United States Senate or House of Representatives? _____ If so, give date and name of committee and subject on which you appeared _____
54. If you have made any trips abroad during the past ten years, give countries visited, dates, and purpose of each trip.

55. Have you during the past ten years rendered any services for any foreign government or foreign corporation or company? _____ If so, give date, nature of services, and for whom rendered. _____
56. List all business transactions, in which you have personally had a part, with any foreign concern during the past ten years by (a) you, (b) your business, (c) your employer, or (d) any corporation or company of which you are, or have been, an officer, director, or substantial stockholder.

57. Have you ever received any award or other mark of merit or distinction from any foreign government or concern? _____ If so, give details.

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58. Is your business, your present employer, or any company or corporation of which you are an officer, director, or substantial stockholder, a contractor with, or a supplier to, the United States or any of its agencies, or a subcontractor with, or supplier to, any such contractor? Are you personally such a contractor, supplier, or subcontractor, or interested in such contracts? If so, list such contracts with all pertinent information.
59. List persons, firms, corporations, or companies which to your knowledge are now contracting, or negotiating for a contract, with the United States or its agencies and for which you have been agent, attorney, or representative since June 30, 1940.
60. List corporations, companies, and persons with whom you have entered into contracts in excess of \$10,000 during the past three years. Also list contracts.
61. List corporations, companies, and persons with whom your business or the concern by which you are or were employed has made contracts in excess of \$100,000 during the past three years, and with which contracts you have personally been concerned. (Omit those listed under No. 58.)
62. State here any facts which you think might be possibly construed by others to have some influence on your official activity to the prejudice of the United States or its agencies. For example, give any circumstances under which a corporation in which you are substantially interested might be under obligations to a person or corporation with whom you would probably deal in your official capacity.

63. Do you agree to be subject to the same supervision and direction as regular salaried officers, to observe established policies and rules governing attendance on duty and absence from duty, as required by your immediate superiors, and to be governed by the provisions of law regulating the conduct of Federal employees generally? _____
64. Are you acquainted with the so-called Hatch clean politics acts and other Federal prohibitions against political activity by Federal officers and employees? _____
65. Do you understand that while serving as a Government official all actions taken by you must be in the public interest and not in the conflicting interest of any individual, partnership, corporation, trust, association, company or firm, and that it is your duty to report to your superior officer any official transaction in which you might, by reason of your official position, have any conflicting interest, no matter how slight?
-

(This certificate must be sworn to before
an officer authorized generally to admin-
ister oaths.)

I, _____, being first duly sworn do
certify, depose, and say that all the above statements, answers, and
attachments are true and correct to the best of my knowledge and
belief.

(Signature)

Subscribed and sworn to before me
at _____
this _____ day of _____, 194 .

(Signature and title of officer
administering oath)

April 8, 1942
9:15 a.m.

INFLATION

Present: Mr. Bell ✓
Mr. Cairns ✓
Mr. Gaston ✓
Mr. Colm ✓
Mr. Leland ✓
Mr. White ✓
Mr. Blough ✓
Mr. Sullivan ✓
Mr. Haas ✓
Mr. Paul ✓
Mr. Jones ✓
Mr. Currie ✓
Mr. Foley ✓
Mr. Hansen ✓
Mr. Landis ✓
Mr. Henderson ✓
Mr. Galbraith ✓
Mr. Gilbert ✓

H.M.JR: Leon, last week when we had this meeting, we all said our piece and so I haven't had--

MR. HENDERSON: Is that p-i-e-c-e or p-e-a-c-e?

H.M.JR: Unfortunately, p-i-e-c-e. Inasmuch as this is - the problem has at least three corners, if not more, you occupying one, I would like very much to hear your side.

MR. HENDERSON: Well, I will put it this way. We started in with the choice of the type of price control

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legislation. Some things seemed rather academic, but very forcefully academic. That is, they were the types of things that any professor would have accepted, but probably as an administrator, the atmosphere in which we started on the price control legislation wouldn't have stirred his stumps to take action about. They were, I would say, a recognition that price control, in and of itself, could not control a war economy and probably would have big difficulty in controlling a defense economy, say, one that ran perhaps twenty-five to thirty-five percent diversion of productive energies to defense preparations. We set out, as you know, that there was need for appropriate tax legislation, that there was a necessity for a control over the distribution of scarce goods, and that there was a need for a savings program and controls over the expansion of credit at least and probably a direction toward a diminution of credit, particularly that of consumers.

I don't believe that - I believe as I say with what seemed then an academic recital than even the people who had the most pessimistic outlook as to what would be available for consumers envisaged what the actual physical supply situation is sure to be this year and what it is planned to be for next year.

For the first time since I have been connected with one of the defense organizations, we have had to think in terms of shrinkage of the war production program. I don't know whether you realize what that means.

H.M.JR: Expand on that.

MR. HENDERSON: We were pressing an internal group for a faster and larger program, as you know, having taken part in it. When we got an acceptance of the program in terms of, say, the bench marks of sixty thousand planes, forty-five thousand tanks, and seven million tons of shipping, things like that, and you apply your tables of conversion to those, as the Army and Navy have been doing, your program runs beyond what it is either possible for the economy to afford in this current calendar year or what it is physically possible by even the strongest of

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efforts of transforming the civilian economy to war-time production to make. At the last estimate the - this year's out-payments for the program filling out the President's message on the old tables of conversion, that is, ammunition and everything else, would run upwards of sixty-five billion dollars, with one quarter already gone and total out-payments not much over seven billion. I mean, it is an impossibility of making fifty-eight billion dollars worth of goods in nine months.

Now, the 1943 program would contemplate, at the price level as of the beginning of this year, seventy-five billion dollars. I don't know, our estimates probably would say not more than a hundred and twenty billion dollars, Dick, as a total for next year's production, considering the bottlenecks. This seventy-five billion dollars is without the pay and - oh, some of the goods and food and things like that which will run another ten billion dollars. That is, an impossibility in any terms of what we see the productive capacity is. But the lesson of that to me is this: We are finding quite a bit of energizing is taking place in the production program, as you can see with the index rising and the income rising, but at every point where there is this pressure now to roll back some of the war program, the choice will always be made, can't we get that out of the civilian economy.

Now, we are down on steel, for example, to less steel for purely consumer purposes than we had in 1932. We are down, and we are being pressed to find some out of that to go forward with a rail program. Now, within not more, I would say, than ninety days, more probably within sixty days, consumers durable goods will be almost completely out. That is, we have made no provision so far for anything beyond repair and maintenance items. That is, we have made no provision even by a consolidation into one plant or a limited number of plants for a continuance of the making of even a small amount of consumer durables. Part of that is by choice. My own feeling has been that if a company does not have any civilian orders that the accrual of pressure toward getting war contracts will be heavier, and I think that the evidence supports that. I feel that this is the time to make

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the cut if we are going to get into a total program. What really the civilian has got to do, the civilian community has got to come back in and talk about its elemental needs, and then we build whatever our concentrated industrial consumer durable goods program is out of that.

Now, that may be a harsh approach, but we now have a Requirements Committee which is operating fairly effectively on the major raw materials, and every pressure, the pressure of carrying out the Russian protocol, for example, the pressure for any speed up in bombers, the pressure for this synthetic rubber program, the pressure for the - what the President wants of another million tons of shipping, and probably what we ought to have is two million tons, all of that focuses now on the limited amount that we have available for civilian purposes.

(Mr. Paul left the conference.)

Now, with that in mind, we have programmed, I would say, about five weeks ago that we would go as far on the price front as our law, stretched to its fullest, would let us go. It was about six weeks ago. We have been busy, and we are ready now at any time and expect to go when the signal is given, with what amounts not just to a retail price freeze but a complete price stop with exemptions which are really minor. We expect to utilize the law as it was passed to make a price stop.

H.M.JR: Does it bother you for me to ask you a question?

MR. HENDERSON: Oh, no.

H.M.JR: Does that include agriculture prices?

MR. HENDERSON: As far as we can go with them, yes.

Now, the ones - you went over the list finally last night.

MR. GALBRAITH: The exemptions are relatively minor when you come right down to it, Mr. Secretary. We excluded,

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for reasons of Section 3 of the Act a hundred and ten provision, on the--

H.M.JR: Is that your Act?

MR. GALBRAITH: Yes. Only butter, cheese, evaporated milk, poultry products, which we would primarily have to exclude anyway for seasonal reasons, dried beans, and a few - sour cherries and so forth. We also do exclude feeds, feed grains being the major commodities which are below the standards of the Act, below parity. It will be necessary to find some other means to hold them stable in order to maintain a fixed price on, for example, fluid milk. That is, Section 3 of the Act, in other words, is not disturbing as far as the generality of the move is concerned.

H.M.JR: I don't want to take up - I just want to ask one other question which isn't clear. This price thing, at what level - either the farm or factory or retail--

MR. HENDERSON: At all levels. As I say, it is not a retail price freeze, although our job will be similar to what the job of the Canadians has been, maintaining that consumer or cost-of-living line as rigid and intact as we can and working back through wholesale prices and production with every available means; but this, in effect, is equivalent to, I would say, the German price stop of '36, and certainly it is equivalent to what Canada has done, as I think their open ends--

MR. GALBRAITH: They are very much the same.

MR. HENDERSON: Now on the rationing front, on these consumer durable goods, I expect it is apparent, with this supply above ground, we have the choice every day, do we allow the ordinary channels of business and so forth to do the rationing on account of the fact that it is a disappearance item, or do we take complete control, and on most of them we are just letting them go out through the system and keeping the price as near to what it normally has been. But we anticipate that each month for

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for the next several months we will have some major program of rationing affecting the cost of living.

(Mr. Paul returned to the conference.)

That is, we have got the gasoline. We probably will have shoes by June or July. We will have some clothing at least in the early fall and probably fats and oils in July. The whole fats and oil question, as it relates to consumer consumption, is probably the toughest one to handle on a rationing basis on account of the fact that there are eighteen hundred of them and many of them are interchangeable. The sources of them and the interchangeability of them for industrial purposes and war purposes as such. But we have the feeling that we can handle satisfactorily with the organizational structure about one major program a month now. The printing itself is one of the big deterrents on it.

Now, independent of that, or tied to it, I will put it that way, I think that we face an inflationary gap that is going to press on us tremendously just the same, and I feel that we have passed the place of what I call the academic consideration, the recognition of the varieties of it and the agreement of principles, and if we don't take hold now, we will almost surely lose control. All the reports that we get in from the consumer end, the retail end, indicate that even with what we do we are going to have tremendous pressure on the markets, particularly for these tail-ends of these consumer durable goods. Now, what that will do to the general market, I don't know. We have arranged for an organizational structure clear down, a Federal system, clear down into the rationing boards. We are going to convert the rationing boards, some nine thousand in number, to price and rationing boards if we get the money out of Harold Smith, and that is the reason I was late, trying to persuade some of his boys that we really needed it, and with an executive in each of the boards, what a state administrative set-up and a regional set-up above that with policy direction here.

Now, we can make that kind of an administrative set-up

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fast enough to take care of, say, a May 1 date for our price stop. We are equipped to do that. I may be feeling a little sensitive about criticism that has taken place while I have been away from labor and Government officials. I would say that anybody who can do it any faster, I would be glad to have written applications.

Now, on the other front, you probably know the position I took about wages. I took that position with a clear realization of what it meant, what it seemed to imply, but with the one single cold fact, that is, there was no possible way that we saw of lifting the volume of goods available to consumers and that it meant, except for readjustments that take place by equity reasons, particularly those in the low income groups, that it meant nothing but a changing of the price tags and that meant just sheer inflation. I have taken that position and I stay with it.

H.M.JR: Your position on a ceiling on wages, what is it?

MR. HENDERSON: My position is that we should have no general increase in wages, that we should have a - what amounts to a freeze at this level with the exception of wages under forty cents an hour, and that we should make our plans, together with the rationing, for maintenance of a standard of living for the substandard groups, not only on wages but the fixed income groups or people who derive their income from other sources.

H.M.JR: Leon, I wondered if some of these people didn't want to ask you some questions about your own responsibility.

MR. HENDERSON: All right.

H.M.JR: Does anybody want to ask Henderson about what he said about rationing and his plans and so forth?

MR. WHITE: What proportion of the total expenditure on consumer goods do you anticipate, roughly, that you will

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have by, let us say, October 1? Do you have some idea of how much coverage that is?

MR. HENDERSON: Only the roughest estimate. I don't think it would be more than fifteen to twenty percent. You mean all the cost of living items?

MR. WHITE: Yes.

MR. HENDERSON: Including rent?

MR. WHITE: No, exclusive of rent.

MR. HENDERSON: On rent, as I say, we expect to get a coverage of about ninety million out of our existing law, but on the items at retail somewhere between fifteen and twenty percent by October 1.

MR. GASTON: How is that, Leon, with respect to the goods that we should expect actual shortages to develop in?

MR. HENDERSON: I would say that our present plan does not call for rationing of the remainderings of the consumer durable goods production. That is, assuming you have got twenty-five million refrigerators and you have a stock now of six hundred thousand. We do not propose to do with them as we have done with automobiles, that is, locked those up and put them out, because our contemplation is now of a victory model of refrigerator when we actually have to make replacements and have that in a concentrated production.

Now, where there is some acute item, of which there will not only be a shortage but a nullity, we may take over the rationing of that scarce commodity.

MR. LANDIS: Your price stop will cover rents?

MR. HENDERSON: We have in contemplation at the time when the President gives the go-ahead announcements which will cover the rents in communities having about ninety

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million population. You see, Jim, we are limited now to a defense area; but, because of the diffusion of war production, we can get most of the populace centers and that would be - would mean that we would get a price stop on that within sixty days.

MR. CURRIE: On the wage ceiling, Leon, is it not true that there has been no wage advance of a general nature since last March?

MR. HENDERSON: You mean wage rate?

MR. CURRIE: Wage rates.

MR. HENDERSON: Dick knows that much better than I; but, as I recall, we have been having a general rise in the wage rates particularly in the defense or war production--

MR. CURRIE: Isn't that largely attributable to the increase of wage income due to the increased employment and higher wage industries and longer hours, but as I have been told--

MR. HENDERSON: No, what you get - now, what we have been greatly disturbed about, Lauch, is the operation of these - what do they call them, area--

MR. GALBRAITH: Area agreements?

MR. HENDERSON: No, not area agreements--

MR. LELAND: Collective bargaining agreements?

MR. HENDERSON: No, wait a minute. Is it the Bacon-Davis Act?

MR. GASTON: Prevailing wage?

MR. HENDERSON: The prevailing wage. Lauch, you would find that the prevailing wage rate has been on an escalator basis. It has not generally affected the war production -

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I mean the total wage rate because of the fact that we have only had a relatively small percentage in war work; but, if that particular provision stays intact, most of your unions are able to negotiate an increase in the rate, actual hourly rate by that provision. As you move toward ten million employed on war industries, it becomes a very decisive factor. 7

MR. CURRIE: What I was trying to get at is this: if you can avoid a general increase in wage rates through voluntary means rather than compulsory, that would be desirable, I should say; and, if it is true, as I say, that there has been a remarkable restraint in that field last year, that labor - organized labor has given up the right to strike, has agreed to abide by the War Labor Board's decision, I should think you are pretty well protected with these things, particularly if you can get a further voluntary agreement on the wage rate.

MR. HENDERSON: But the whole purpose in asking for the dollar a day of the War Labor Board was admittedly for raising the whole level of wage rates. That was the purpose of it, and it was for that reason that we have resisted it.

MR. CURRIE: But if you could get this thing voluntarily, you would prefer it to compulsory, wouldn't you?

MR. HENDERSON: Well, what do you get voluntarily? You get voluntarily a coverage, yes, of important industries, but not a complete coverage. It is the same way we have had a very, very swell response from retailers as to the averaging of their cost of inventory and their retail prices, but you can't hold the dike; and you wouldn't be in my mind - maybe I have gone totalitarian, Lauch, but I don't see any way in which you can hold this flood by the voluntary method, particularly as other elements.

MR. GALBRAITH: Lauch, do you mean by voluntary, non-statutory measures?

MR. HENDERSON: Or agreement?

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MR. CURRIE: Well, it is partly voluntary and partly compulsory, I would say, Ken. When labor has foresworn the right to strike, they give up the main weapon for advancement of wage rates. If, in addition, they abide by the decisions of the Labor Board and if they refrain from asking for a general over-all advance, the main things you are worrying about, it seems to me, is not going to prevent the wage ceiling, that is the increase in labor income due to increased employment and longer hours. You are going to let that be.

MR. GALBRAITH: I think, so far as going to Congress for maximum wage legislation, statutory authority, that there is no difference of opinion. I suppose the difference of opinion turns on the strength of the executive declaration asking for no more wage advances, if there is a difference of opinion.

MR. HENDERSON: I resisted, as you know, all along the inclusion of wage control under the price control, and our position is consistent with what we are taking now. I would not like to see Congressional wage control. I would like to see it as an executive policy which was pending on all the agencies and that you get the greatest amount of participation and cooperation from your labor groups, but I think unless you get that that the pressure will always be for what they call an adjustment to the cost of living.

Well, now, in terms of what is available of the real goods, there cannot be that adjustment and make forty-two billion dollars worth of war goods this year out of--

MR. CURRIE: I think you have your price ceiling plus the extension of rationing, and you don't get that pressure, do you?

MR. HENDERSON: Well, if you had a completely closed and controlled system, you probably wouldn't.

MR. WHITE: Isn't your device for obtaining from

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labor a share in the reduction of the standards of living which is called for by the reduction in consumers' goods to be obtained through the regular channels, namely, taxes and savings, that you have every hope of holding the cost of living down and to expect labor to take an increasing share of that sacrifice by not letting wage rates increase concomitantly following after a lag with the rise in the cost of living is something I really don't think you believe there. I mean, you yourself hope to keep down the cost of living through the various devices; but, notwithstanding that, it is necessary to reduce consumption of consumers' goods, and you are going to take other methods to accomplish that, measures which are designed presumably with some reasonable - on some reasonable schedule to spread that sacrifice, we ought to call it, over the population in some progressive form or in some way which will fall less on those less able to bear it, but you have already got an agency to accomplish that, so I don't think you would want to advance the argument in favor of fixing wage rate ceilings, that you want to have labor curtail consumption power.

MR. HENDERSON: Well, I certainly do, Harry, because I think that the gap is so large.

MR. WHITE: Well, Leon, if the gap is large, let's tackle it in the reasonable way. After all--

MR. HENDERSON: My point may be - you talk about a reasonable way, Harry--

MR. WHITE: Well, I mean--

MR. HENDERSON: I am more jittery about it than you are because I sit there every day and make the recommendations for just taking the physical goods out of production entirely.

MR. WHITE: I don't--

MR. HENDERSON: And I think the - I think if you had to listen to the ping pong manufacturers and the pin ball manufacturers and the copper manufacturers, all these people

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who actually make these goods, and know what a drying up there is going to be, you would favor a complete program at this time.

MR. WHITE: Well, Leon, I know we have the same objectives, that is why there is some purpose in arguing. If we didn't, there wouldn't be any. The necessity to reduce the purchase of those commodities, I think there is complete agreement on. I think that you feel the most impact on that, but you are closest to the Maginot Line. And yet, isn't the way to attack that problem the way you have always held, is through taxes or voluntary savings or forced savings or some scheme, because when you arrange a program of that character, you pay some attention to the reasonable basis for the reductions. When you permit, on the other hand, the rise in the prices with the lag in wage rates to be the vehicle through which you force a reduced consumption, you know it is very unfair. Now, if we were unable to accomplish it through any other channels, then I would agree with you fully that we have to go to the next, though less desirable, means. Are you convinced that it is impossible to attack it through other channels?

MR. HENDERSON: Yes, and to get the control that is implicit.

MR. WHITE: Well, I don't see that, because if what you are after is a curtailment of purchasing power and that is what you are driving for when you say you want wages to lag behind prices, what you mean is they won't have enough money to command real goods. Isn't that right? Now, we have other vehicles for accomplishing that purpose right at hand. We may not have gone far enough, and I think that we might want to push to go further, but certainly that is the vehicle to go because when we use that instrumentality, we certainly can be reasonable and fair.

MR. HENDERSON: Let's make it specific. I favor the President telling the War Labor Board that as a matter of national policy they should not authorize wage rate increases, such as the dollar a day.

Now, do I understand that you don't favor that?

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MR. WHITE: Well, I think what the President should communicate to his various agencies, including the War Labor Board, is that no increase in wage rates should be permitted unless they are necessary to make the adjustments you spoke of, unless they result in increased production, except in certain industries where it may be necessary to offer additional inducements in order to get additional work, and finally unless it is necessary to be adjusted to cost of living. I don't mean identically, but somewhere along the line. Now, if you accompanied that labor philosophy, which can be carried out at his instructions without any legislation and without any Administrative order, if you follow that with a successful keeping down of the cost of living to some small percentage, then I think you have handled the labor situation satisfactorily, and you tackle the necessity to reduce consumption through the usual channels, namely, increase in taxes and increase in savings. If it isn't voluntarily forthcoming in adequate quantities, you force it, and I think you have an adequate control.

MR. HENDERSON: Dick wants to talk.

MR. GILBERT: I think it is important to keep the facts in mind in this discussion. I don't think Harry is. The facts are that real hourly earnings, hourly earnings corrected for the cost of living, are precisely today where they were a year ago, real hourly earnings are unchanged. The real weekly earnings are up twelve percent. Up to this time labor has taken no cut, twice the reverses. Its position is immensely superior to what it was a year ago. Now, the proposition is that from this time forward, this year there is to be a twelve percent cut in the amount of goods available to the entire nation. Labor simply cannot maintain its real standard of living without imposing upon other groups in the community a cut in their standards of living beyond the twelve percent which must be the average for the nation. It is a basic point.

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MR. HENDERSON: It is not only that, but what you would have - you wouldn't get a uniform adjustment upward of wages. You would get the strategic bargain groups and the strong-powered groups who would be getting it at the expense of other groups that are not able to make their wage increase.

MR. GILBERT: And the second point I think Harry has neglected is, what is the magnitude of the increase in purchasing power that will result from the increase in wages? We have done a very careful job in trying to calculate that, and we calculate that it will mean seven billion dollars this year, the difference between freezing wages and permitting them to go up as they have been going up. That will mean seven billions of dollars. Now, Mr. Secretary, you have got to devise programs to take up an awful lot of money. What we have been discussing these past few days and weeks, has been an increase of the program to yield six billion dollars, and that would be enough if you had wage freezing. If you don't have a wage freeze, you have got to get thirteen billions more, an additional seven over and above the six. Now, I say as a practical matter, you just cannot devise fiscal and other means to sop up purchasing power as rapidly as it is now being generated, and we have got to recognize that fact. It doesn't make any sense to break our backs finding new techniques for pulling purchasing power out of the market when we don't close off this clear avenue through which the funds are pouring out.

H.M.JR: Could I go back a minute to your (Henderson's) board that you are going to set up, which you hope to get the money for? This is your problem, and nobody can answer this but you. Is it impractical - let's say that you are successful on the first of May or whatever date the President and you decide to set a ceiling on prices. You have got these nine thousand boards, appeal boards and all that sort of thing, I suppose, and while - the other thing is done but still within your responsibility, I mean you can't go further than rationing and doing the

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thing that you described? You spoke about getting one thing a month or one in two months or something.

MR. HENDERSON: I said one group.

H.M.JR: ~~You~~ can't move faster on that front?

MR. HENDERSON: Can't move much faster. But what is the argument for taking a complete regimentation of expenditure?

H.M.JR: Argument for?

MR. HENDERSON: Yes.

H.M.JR: Well, I am not arguing for anything. I am just asking for information.

MR. HENDERSON: Here there will be a number of goods in which there will be a plenty for those who choose to exercise that choice.

H.M.JR: Well, let's take soap, for example. You fix the price of soap.

MR. HENDERSON: We will fix the price and we will probably have to fix - we will probably have to ration soap before the year is out.

(Mr. Smith and Mr. Sullivan left the conference.)

H.M.JR: What I am getting at, you fix the price, and then you don't ration soap. I mean, your problem irrespective of what anybody else does to keep the price of soap down; if there is not enough supply of soap, people begin to compete, it is very much more difficult, isn't it?

MR. HENDERSON: Yes, but what makes it difficult, what makes it particularly difficult, is that excess of purchasing power in the possession of people who as we know have been short on goods for a long time, and it

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is the breaking of the - that is what I think would break any of our controls.

H.M.JR: I agree with you.

MR. HENDERSON: And that is the reason why I favor so strongly mopping up at the source this purchasing power.

H.M.JR: I agree with you, but I--

MR. HENDERSON: I think my point is this.

H.M.JR: Can I just say this? Supposing the people working for Mr. Roosevelt could devise a scheme of mopping up a great deal of what we call the gap of eleven billion or fifteen billion, whatever it is, the job of doing that, if it was done simultaneously with rationing, both things would be a greater success than if you did one without the other, that is the thing.

MR. HENDERSON: Oh, yes.

H.M.JR: I mean, if you moved on both fronts, using soap as an example. I know just enough about it not to discuss it in detail, but to get down - I mean, with the money in the people's pockets - and let's say a family uses two cakes of soap a week, and there is only a cake and a half to go around, and they are going to bid for that soap, it makes your job that much more difficult no matter how successful the people may be in trying to sop up the excess earnings.

MR. HENDERSON: What I would put--

H.M.JR: I wonder if we can't move more on the two fronts, Leon, not rely solely on the people to mop up the excess money, or we rely solely on you for rationing, but try to move together.

MR. HENDERSON: I will put it this way. What I was saying to Harry, I am probably more jittery than he is,

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I have been through, as you haven't been, this increase in farm prices and felt the power of the farm bloc. I have been through the increase in the labor income and seen what it has done. I have been seeing and anticipate more acutely what is likely to happen because of the enormousness of the gap. That is, a very greatly reduced volume of goods with a tremendous increased volume of purchasing power with the prospect that if something isn't done we get five to seven billion dollars more just from rates alone, regardless of what - as Lauch points out, the increase that you get because people are moving up to a higher wage rate because the industry calls for that rate. My jitteryness comes to this. I think that with everything that we can do, as far as we can get with taxation and with saving, compulsory and voluntary, as far as we can get with rationing, as far as we can get with price control, that there will still be enough leakage so that we will have managerial problems.

In other words, I am in favor of hitting on all fronts, and not only that, but I think you have got to have a unified program on profits, on the farm, wages, cost of living, and rationing, and rents, and everything else in order to get a complete acceptance here.

I think maybe my difference is one of seeing the leakages. You check up on priorities. Out of about three thousand firms I think close to fifty percent of them were shown to have violated in some way the priority regulation. We are paying dearly for that leakage now. I think we will have leakage on price and on rationing, and I don't see - I think the whole program will break down unless there is a tremendous amount of money taken from the source; and also unless a program comprehends taking away the excess profit, stopping the wage, except for the adjustments necessary, and hitting the farmer, preventing this lock up that they are trying

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to make with the commodities, on all fronts, and I think even then we have got a magnitude of a gap in my opinion that no country has really had to face without several years of preparation.

MR. HAAS: Leon, may I ask you a question? I believe as you do, and the Secretary does, that we have to move on all fronts, and then you have got a very difficult job on your hands, but the case you point out for it is very rapid conversion over a large sector of the economy. It seems to me to indicate that you will have to move more rapidly on the rationing front than you are now indicating it is possible to move.

I don't know whether it is possible to move more rapidly or not unless you change your rationing schemes, but I think it can't be helped by fiscal devices for this reason, that the fiscal devices become less effective as you get this tight situation, as you point out; because as you pull the purchasing power out, it is like lifting bucketfuls of water out of a spring. You get liquidation of other assets. You don't get a net reduction. So that the only device to handle the problem that is confronting this country now with this very huge conversion seems to me one of much more rapid extension of the rationing.

I think the other thing has its place, but rationing has to go more rapidly because the fiscal devices will not be effective. You have got all this--

MR. HENDERSON: I will say I don't think you and I have got any quarrel on that. My only plea is to make the fiscal device go as far as we can make it go. I think we are better off anyway on the matter of financing the war, but that is something else, again.

MR. HAAS: Well, we discussed the technique of rationing and so forth, but you start discussing the technique of how to absorb purchasing power, make net reductions in expenditure by the fiscal devices, then you have got some really difficult problems and they become more difficult as this pressure, that you indicate, increases; and it seems to me that you have got several devices here, but as the pressure increases more the rationing thing has to get more in the forefront as the only device that can handle the thing. It has to be, of course, accompanied by the other device.

MR. HENDERSON: I don't say that is the only device. Your rationing device breaks down, George--

MR. HAAS: I don't believe in doing one and none of the other, but you have to put more emphasis on the rationing device as your pressure gets tighter, because you get liquidation of the other assets, you don't get a net reduction in expenditures.

MR. HENDERSON: That is right.

MR. HAAS: And I think, Leon, the figure you gave to Harry of how far you can move, I think if you don't move faster than that, and we are moving on all fronts, that the situation will get out of control.

MR. HENDERSON: Do you mean, George, that we ought to take over the control of a supply that is not short?

MR. HAAS: Well, I am not advocating which type of rationing to use, but I think you have to get a more complete - a larger percentage of the expenditures under control than fifteen percent by the date you indicated.

MR. HENDERSON: Well, if we get rent and gasoline

and certain elements of clothing, all of the tight items disappear.

MR. HAAS: That would be more than fifteen percent.

MR. HENDERSON: You asked me by October 1.

MR. GASTON: That answers the question, doesn't it? If you take care of the tight items--

MR. WHITE: No, I don't think it does, because Leon, you would recognize at once that all items are tight at the price you want to freeze them, that is the trouble, and the more you ration, the greater your segment of rationing, the tighter becomes the non-rationed items because of the released purchasing power which, in part, tends to concentrate on them so that all items are short according to the general plan that you outlined at the beginning. They are short at the price that you want to keep them at. They are not short from the point of view that you can probably get all you want if you want to pay enough money.

MR. GALBRAITH: Harry, with all of the administrative complexities that are involved, would you advocate a rationing program for electric toasters?

MR. WHITE: Well, I think the point at issue on the cleavage, and I don't think there is any difference of opinion, is merely that you have to proceed with the rationing of items very, very rapidly, because you are dealing with a situation in which everything is in short supply from the price point of view, which is the point of view on which you are tackling it.

Now, which shall be the items - which fronts you shall move on first, you know better than I.

MR. GALBRAITH: It is not a question of moving first. It is a question of whether to move at all or not. We can set up three categories of commodities for purposes of discussion. One of them, the first, is items which are not

going to be short in supply, tobacco, for example.

MR. WHITE: You mean, they are not going to rise in price?

MR. GALBRAITH: There is not going to be any difficulty maintaining the supply of Chesterfield cigarettes at fifteen cents a package or whatever the current price is.

MR. WHITE: In other words, an adequate supply will be forthcoming at present prices?

MR. WHITE: Then you are no longer interested in that.

MR. GALBRAITH: That is right. Next we have commodities of continuing rising prices which are vital, gasoline, fats and oil, sugar. Clearly, we have a problem or rationing those. We are not arguing about those. But the conversion is striking at consumer durables primarily. Now, to be sure, we are rationing automobiles. We are rationing automobiles primarily when it comes right down to it, because they have four rubber tires on them. That is the only reason we are rationing automobiles, if you want to come right to it.

H.M.Jr: You don't want to say that.

MR. GALBRAITH: That is right.

H.M.JR: You want the capacity of automobile plants.

MR. HENDERSON: No, the rationing of what is already made, Mr. Secretary.

H.M.JR: But you want the plants.

MR. GALBRAITH: The reason is that there are four new tires on the car.

H.M.JR: But you are not talking about the automobile

plants.

MR. HENDERSON: No, we are talking about the cars already made.

H.M.JR: O.K.

MR. GALBRAITH: Now, for the rest of consumers goods they are the type of electric toasters. They are not articles of universal consumption. They are not articles which have to be sold to Mrs. "X" today in order to enable her to keep her family fed and housed and clothed. I am just putting this question. Would you seriously contend that a rationing program with all it involves should be set up for each of those scores upon scores upon scores of items?

(Mr. Sullivan returned to the conference.)

MR. WHITE: Well, Ken, you have answered the question in the kind of case you have stated, but I don't think that is the kind of case that is at point. The issue simply is that there will be increasing pressure for all items, most items. So, there will be an adequate supply and the price won't rise, like cigarettes. So the price will rise but the amount of consumption will so vary that it doesn't lend itself to rationing. Now, there is a wide area of commodities in which, if you had time, you would want to move in, one after the other. You would be far from the total even after a couple of years. Not on the sole point that George is making. The point we are all making is that you have to go forward in that area very rapidly. What you include would depend upon the particular commodity in your duties as to what lends itself most easily to rationing, and what benefits most by rationing, but certainly you would have more than the half dozen commodities you have suggested.

MR. HENDERSON: Oh, yes. I said groups of items. I didn't want to leave the impression that I didn't feel we would increase our coverage. I was talking about what we could frankly see between now and October 1.

MR. HAAS: One of the main points I wanted to make is, as you get a tight situation, the fiscal mopping up becomes less and less effective, because you don't get net reductions, you get liquidation of assets. The Treasury has all these demand securities out, has sold savings bonds, and the only effective means, as the situation gets tighter and tighter, to prevent spending, is the rationing system, so when you make up a strong case for rationing, it seems to me that simultaneously you make - you have to make a strong case for a very rapid extension - I mean, a strong case for the rapid conversion, to make a strong case simultaneously for a rapid extension of rationing because as far as I know that is the only effective way of handling that situation, and I am not advocating that you don't move on the other fronts, but all you can do on the other fronts would not stop it. The only effective way it could be handled is by extensive rationing. Do you agree with that, Leon?

MR. HENDERSON: Oh, I agree on the matter of equitable distribution, yes.

H.M.JR: Well, I would just like to say for myself, that what Henderson has said this morning is - I don't know that he was ready to move as far as he says he is ready to move this month.

MR. HENDERSON: Maybe I ought to say in self defense - it is unusual for me to be on the defensive, but I--

H.M.JR: Is that the South American way?

MR. HENDERSON: This is while I was away in South America, put it that way. But we have had this in our contemplation. We did not emphasize it while we were getting our price law, that we had started on an original set up, as far as price administration was concerned, and had many weeks ago - well, we had determined when we got the law as soon as we could accomplish our re-organization, and meet our statutory terms that we would go forward very

boldly with our program, and five weeks ago, seeing the rest of this coming, we had determined that about the middle of April we would get almost a complete retail price stop and we have gone further than that since we find that you can't distinguish your retail prices and expect to have a complete stop. The point I would like to make, is that this is not something that was thunk up over night.

H.M.JR: Well, what I was going to say was simply this. In view of what you said this morning, I want to re-examine our own problem again. In other words, I want another twenty-four or forty-eight hours to re-examine the whole problem because this is terribly important, and I would like time to think about it.

MR. LANDIS: May I ask a few questions on Mr. Henderson's program? Your price controls will not only go down on retail prices, but on other price levels as well. Now, the exemptions that you have on section three, those are statutory exemptions, and you are not creating any more?

MR. HENDERSON: Yes. In fact, we are straining as far as we can go.

MR. GALBRAITH: I didn't quite get Jim's question. Are we creating any additional exemptions? Yes, but they are trivial. Auction sales and--

MR. HENDERSON: I thought you meant on the agricultural end.

MR. LANDIS: There is where my question was, along the agricultural front. There your statutory exemptions go to retail prices of specified commodities, but you can't even touch the retail prices of others, and then they go also to agricultural commodities where you can touch the retail angle. Does that worry you very much?

MR. GALBRAITH: Well, I will give you a reference to

one of the members of your staff, Mr. McLaughlin, who has become an expert on agricultural commodities vis-a-vis section three of the act. The exclusions under section three, under the McLaughlin construction of section three, if I may say so, are of two sorts. They are commodities, of which butter is one, that we cannot come to grips with at any point. At the other extreme is cotton, which is a cent or so from the levels established in the act, but where we have wide margins, very wide margins between the price of cotton, say, and the price of a shirt, we are going to make the argument that that margin is wide enough so that the price of cotton can go up, as it can, without affecting the retail price. We are going to make that same argument as far as bread is concerned. That comes within a very small group of commodities, not fixed at retail, which is, after all, what we are after. The group that I listed to the Secretary at the beginning is the group which cannot be touched anywhere. In addition to that we are not fixing fresh fruits and vegetables for reasons, I suppose, that are obvious.

MR. LANDIS: That group doesn't worry me as far as I see it, the group where you can't touch the product at all. I don't think the pressure on that group is likely to bring a general price increase. Are you worried at all about the pressure from the group where you can only fix the retail price and not the price of the non-processed article, but instead of rolling back where it will come up so tough against the retailer that you are going to get a break in your general price level?

MR. GALBRAITH: The answer is yes, Jim, we are worried, but the commodity, the only important commodity, the key commodity in that group, is wheat, bread, where fortunately, we have a promise of - we have the largest supplies on record and we are going to have even larger supplies next year. We are going to have a carry-over of fantastic proportions. It is going to have to be part of this over-all measure, and this measure has been discussed with the Department of Agriculture to stop this business of tying up the wheat stocks, that is very important, and, secondly, to maintain a surplus disposal program which

would maintain the price of wheat. That, incidentally, will also maintain the stability in the price of feeds which should cause the same effect as far as dairy products is concerned.

MR. LANDIS: I mean, that is the point I am a little worried about in the application of your own scheme, apart from any other pressures.

MR. GALBRAITH: We have been doing a good deal of brain sweating on that problem.

H.M.JR: Any other questions?

MR. PAUL: I would like to get to another phase of the discussion if you have time, and that is the constituency of the other end apart from the wage situation, what should we try to do by way of fiscal controls?

H.M.JR: Well, in view of the discussions taking place here this morning I would like time to re-examine our own problem, if you don't mind.

MR. HENDERSON: We haven't discussed to any great length, and I don't know how much the group has, something that I consider absolutely vital, and that is that program touched on all the elements which are straining this problem now. I think it - I can't see how you can get a wide acceptance of one or another. We found out this. We checked the people on the Administration side who voted with the farm block despite the greatest of pressure. There is the President and Barkley and Jimmie Byrnes. We threw everybody into the breach to try to lick the things that they put on us. When you got down to the heart of hearts of the fellows who were not - the Cotton Ed Smiths or the Bankheads, they said, "I know just as well as I am sitting here that wages are not going to be restrained and that profits are not going to be restrained, and this is the only equitable way they can see to give the farmer a break." Now, when we got down, as I say, to the group that would have

swung, that you ordinarily look to, the Administration looks to, that was uniformly, and we got that from many checking angles, it was the most enlightening experience, Hill-wise, that I have gone through. When they got down to it, it was because they felt that the other elements in the community were going to get an increasing rate, and the only way the farmers could keep pace would be to leave their hands relatively free.

H.M.JR: If there is nothing else, thank you all very much.

April 8, 1942
2:18 p.m.

HMJr: Hello. Hello.

Operator: He'll be on in just a moment.

HMJr: Hello.

Operator: Here he is, Mr. Secretary.

Vice
President
Wallace: Hello.

HMJr: Hello, Henry.

W: I had a swell conference with the Boss this morning.

HMJr: Oh, did you?

W: A swell conference. Harold and Leon and Eccles were there immediately following, and the Boss asked me to stay over for that.

HMJr: I see.

W: And I judge what it gets around to is a speech he wants to make on April 27.

HMJr: I see.

W: As to just what's to be in that speech, and he suggested the four of us get together with you and Sam Rosenman and work on that speech.

HMJr: Good.

W: Now, I expect you better - you'll be seeing him tomorrow?

HMJr: Yes.

W: The directives were not too clear. Maybe the other boys know more about it than I do, but it's obvious that he wants to stop the increase in the cost of living.

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HMJr: Yeah.

W: So we're supposed to get something together that any taxi driver will understand.

HMJr: For when?

W: April 27.

HMJr: I see. Well, when do you think we should get together?

W: Well, I told Harold when we got through to - I suppose it depends on when Sam's in town - I told Harold to let me know and I would do the - it would be okay with me; I thought I could fit it in most any time.

HMJr: Yeah. I think Rosenman's here on Friday's and Saturday's.

W: I suspect that's what determines it.

HMJr: Yeah.

W: Well, you called me - oh, I called you, didn't I.

HMJr: Yes.

W: Well, this is what I wanted to tell you.

HMJr: (Laughs) How'd you get along on your own thing on the.....

W: Say, oh, just marvelously.

HMJr: Did you ask for those things?

W: I think it's all right. It's a combination outcome, that I think is perfectly satisfactory.

HMJr: And you're happy about it?

W: I'm happy.

HMJr: Well, that's good. And you didn't - well, you

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didn't get from the President what direction he wants this speech to go.

W: I think he wants compulsory - he wants compulsory savings in, I think.

HMJr: Yeah. And.....

W: I - (Laughs) - I asked whether he wanted - he says - referring to sales tax - "Mustn't use - sales taxes I mustn't use. That's a naughty word. Use 'excise taxes'".

HMJr: Yeah.

W: Then later when I tried to get it a little more definite what he wanted in the speech later on, I said, "Do you want compulsory savings in?"

HMJr: Yeah.

W: He said, "Yes." I said, "Do you want excise taxes?" And he started talking about something else, so I don't know whether he does or not. (Laughs)

HMJr: Well, who does he want that - I didn't quite hear you say who he wanted to work on it. It was Smith.....

W: The six of us, I take it.

HMJr: I see.

W: Leon, Harold, Eccles, you, Sam Rosenman, and myself.

HMJr: I see. I see. Well, I.....

W: I got into this thing in a purely accidental fashion. It was just the sequence of appointments.

HMJr: Well, I think it's very fortunate. Well, I'm glad you did well on that other business - on the Economic Warfare - because I think that's terribly important.

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W: The - it'll be - I think the thing's coming fine.

HMJr: Good.

W: And what it's going to work around to then is, I think, rather frequent meetings of the Board, which I felt were desirable for some time, but until he had made up his own mind, I didn't see any use in it.

HMJr: Right.

W: But now that he's made up his mind - he'll have a meeting, I take it, and will make things clear.

HMJr: Yeah. I tell you, the way I've been thinking today on this forced savings, and see how this hits you. I was thinking of putting this up to the President tomorrow. Why not get the authority to, let's say, have forced savings anywhere from one up to fifteen per cent.

W: Say, that's a pretty good thought.

HMJr: And then start it with, say, one per cent in order to get the machinery going; and then say to us, "Well, now, go ahead and see what you can do."

W: You've got a good combination thought there, I think, Henry.

HMJr: "And if you can't do it by July, Henry, then" - to me - "then....."

W: That sounds swell.

HMJr: ".....then we'll do the other."

W: Sounds swell.

HMJr: But get the authority to do not five per cent, but to do between one up to fifteen.

W: I think you've got something, Henry.

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HMJr: What?

W: I think you've got something.

HMJr: Because five might not be enough.

W: Yeah. Yeah.

HMJr: It - and then again it.....

W: That's the question mark I've had right along.

HMJr: And then again, supposing he slaps on.....

W: I thought - can you do it variably?

HMJr: Oh, yes.

W: I mean - no, I mean, when I say variably, at one - can you have one rate with one group and another rate with another group?

HMJr: No, that isn't what I meant.

W: Yeah, I know what you mean, but I wondered if you couldn't do it.....

HMJr: Oh, you could do it by income groups, yes.

W:by income groups.

HMJr: Oh, yes.

W: It's worth thinking about, although I don't know which way you'll load it.

HMJr: And I wouldn't object then going down as low as they wanted to go.....

W: Yes.

HMJr:on that. I mean, if you let the \$500 fellow - if you had some savings for him, fine. He's the fellow that needs it the most.

W: Yeah.

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HMJr: But don't lower the income tax brackets on that, then, and get it through forced savings.

W: Well, I think you're beginning to get somewhere.

HMJr: How does that strike you?

W: Sounds good.

HMJr: Well, that's what I was going to suggest to him tomorrow.

W: I think you've got something.

HMJr: I think that - do you think that would be the answer?

W: Sounds good to me.

HMJr: Okay.

W: Well, I'll be seeing you, I suppose, sometime the latter part of this week then.

HMJr: Yes. Right.

W: Fine.

HMJr: Thank you.

April 8, 1942
2:35 p.m.

INFLATION

Present: Mr. Gaston
Mr. Sullivan
Mr. Paul
Mr. Graves
Mr. Kuhn
Mr. Blough
Mr. Haas
Mr. Foley
Mr. Bell
Mr. White

H.M.JR: Well, I will go backward and give you the dirt first. This is a Treasury party. I find I have more than two friends. I didn't think I had any friends, but I find I have got one. The Vice President just called me up, very pleased, and he asked my advice on Economic Warfare. He saw the President, and got what he wants.

MR. WHITE: Good.

H.M.JR: He just wanted to let me know. So he said, "I thought you would like to know, Henry, what happened this morning." He said, "I was over to see the President with Harold Smith. We had a very fine meeting." He said, "They followed me with Harold Smith, Marriner Eccles and Leon Henderson to talk to the President on cost of living. So the President said to me, 'Well, you had better stay, Henry, as long as you are here. You had better sit in on this.'" Don't you love this? It is a wonderful city, isn't it?

MR. BELL: What time was this, after your meeting?

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H.M.JR: Yes.

MR. WHITE: Did they know they were going there?
I suppose so.

MR. BELL: It was all prearranged.

MR. SULLIVAN: Harold left here at ten o'clock.

H.M.JR: Don't you think, Randolph, that the
lawyers in New York are really a nice crowd after you
have been here a while?

MR. PAUL: These fellows are not all lawyers.
Some of them are bankers. (Laughter)

H.M.JR: Bankers?

MR. PAUL: Marriner is a banker.

MR. BELL: No.

MR. FOLEY: No?

MR. BELL: No. (Laughter)

H.M.JR: Well, I always say when you are doing a
tax bill you have got to sleep on the floor so a fellow
can't put a knife in your back. Well, I gathered that
they tried to press the President as to the sales tax,
and he said, "Can't you call it by some other name?"
Wallace said he pressed him and couldn't get anything.
But the upshot of the meeting was that the President
appointed a committee of six to work with Sam Rosenman
for a speech to be given on the 27th of April, the com-
mittee to be composed of the Vice President, as he said,
by accident because he happened to be there, and myself,
Harold Smith, Marriner Eccles, and Leon Henderson, and
Judge Rosenman. The only thing to do is to laugh about
these things. Well, I had Donald Nelson for lunch, and
he read my memorandum, and I tried out on him the plan
which I think is the answer from the Treasury standpoint

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as far as savings go, and I want to try it out on you people. Nelson was very enthusiastic. That is this, that I say to the President, "Now look, Mr. President I think that with the help of OCD and ourselves that we could reach a billion dollars a month of "E" bonds by July, but it is a thing, and I can't guarantee it. Therefore, as the Treasury is as much interested in inflation as anybody else, if you will read that speech I gave in Boston on September 7, my suggestion, Mr. President, is that we put into the statute a law which would permit you to have forced savings anywhere from one to fifteen percent, because you don't know how much you need, and starting with one percent get the machinery oiled up, and telling us to go ahead and do the very best we can, and telling the public that if the thing goes well we won't put in forced savings; but if they fall down on the job and don't get enough money, we will, and the advantage of having it from one to fifteen, if they ask for five, five may not be enough. On the other hand, you might want to run it up to ten; and after you have had it there for six months, you might want to drop it. You don't know." Now I tried this out this morning on White, and I tried tried it out on Nelson at lunch, and Nelson was very enthusiastic about it. That is the answer, he said. He said, "Unless you can guarantee the billion, which I don't see how you can, I think it is a mistake for you to assume that responsibility." He likes the volunteer plan. He would like to see us go ahead and put on a big campaign with OCD.

He would like to see us do it. When the Vice President got through, he said to me, "Henry, the President is for forced savings." Then I tried this out on him, and he said, "Well, that is the best suggestion I have heard yet. That answers all arguments." He said, "That is better, and I don't think five percent is enough." Now, to go a step further, I would say to the President, "Now, I don't care how much down the line you go on forced saving. You can start at two hundred dollars, if you want to, I don't care. You can start at any level that you want to, but don't do anything on sales tax, don't do

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anything about lowering the exemptions, and don't do anything on the tax bill. Leave it alone." Now, I am having supper alone tonight with Leon; and for some of you who may not understand the signals I sent you, I didn't want Leon to get started on the tax bill and commit himself before twenty people, and then find he couldn't withdraw his position tonight after I had a chance at him alone. I hope you understand what I did.

MR. PAUL: No, I thought you had some motive.

H.M.JR: And I wrote Leon a note. I said, "If it is just the same to you, keep off the Treasury's problems, and wait until we get together tonight." You could see that is what Leon did, and I checked with Nelson. Nelson said, "I know what Leon is going to do." I said, "Do you?" I told him. He said, "No, I didn't know this. I have been seeing him every day, and he didn't tell me about this." Leon made up his mind about that during the night. My guess is, coming to this meeting this morning late and rushing to the Bureau of the Budget, in getting ready to come to this meeting this morning - Donald Nelson said, "I see him every day, and Leon didn't tell me anything about this," so to get ready for this meeting - because Leon stayed behind and said, "God, I never went to bed last night, I have been working all night through."

MR. WHITE: Well, you remember what his Lieutenant said at your first meeting. He said they hoped to get this in eighteen months. So, apparently, he at that time wasn't fully cognizant of it.

H.M.JR: I think Leon made up his mind during the night, and I don't think Gilbert was with him. I don't think he worked with him.

MR. BELL: He made it appear as though his mind had been made up for six weeks.

H.M.JR: Well, he started to apologize, saying, "I don't like to apologize, but I had this all made up."

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But, Don Nelson who had been with him didn't know it until I told him today, and he lunched with him on Monday. Well, starting with Bell, what do you think--

MR. BELL: It is quite a crowd around town.

H.M.JR: They say the English should trust us, and we should trust the English. All they have got to do is see how we trust each other. Why don't you tell MacLeish to start a little morale program amongst the people that work for Roosevelt? (Laughter)

MR. WHITE: He would have a hard time finding out who is working for him.

H.M.JR: Well, starting with Dan, we will go around the room. What do you think?

MR. BELL: Well, I suppose it is the best you can do. It isn't a bad idea. Apparently we are all alone on this thing.

H.M.JR: It happens to be mine, and my corns are not tender. This happens to be my own idea.

MR. BELL: I think there is one part of this program on which they have given in to you, and that is forced savings, and I think possibly there are some people in the Treasury feel like forced savings.

H.M.JR: Have you smelled out a few?

MR. BELL: Well, I think there is some feeling around here that forced savings is in the picture, and I think it is a good compromise.

H.M.JR: Roy?

MR. BLOUGH: If the Congress will give the President that power, which I doubt, I think it is excellent.

H.M.JR: Ed?

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MR. FOLEY: I like it. Is this tied up with the bonds, forced saving, or would it be forced savings generally?

H.M.JR: My suggestion is that you would have the President and myself have the authority to apply to the pay rolls, earnings of the country, anywhere from one up to fifteen percent.

MR. FOLEY: And give them bonds?

H.M.JR: A piece of paper.

MR. GASTON: It would have to be a new security. It couldn't be a redeemable security.

H.M.JR: Give them some kind of piece of paper which would be payable after the war. Most likely it would be non-interest-bearing, a piece of paper payable sometime after the war.

MR. BELL: It kills your voluntary plan when you start that.

H.M.JR: Not necessarily. If you say one percent and you hold it there, and if we get to a billion dollars a month and get our quota, we will leave it one percent, which would be a club over their heads. This would be the coercion.

MR. BELL: Well, it might work that way, but I mean that whenever you start on your percentage, then you kill Harold's program.

H.M.JR: That is right. That is what I tell everybody, and they won't believe me, but I tell that to everybody.

MR. WHITE: I don't believe that.

MR. SULLIVAN: Well, don't you kill it before that?

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MR. GASTON: You are speaking about two different things. It will kill Harold's program in the form in which it is now set up. He will have to devise a different kind of a program addressed to different groups in a different way.

MR. WHITE: That will make it a better program.

MR. SULLIVAN: Can't you do both things, Mr. Secretary? I take it that you and a lot of other people here have been anxious to let this go ahead and develop its own momentum for two or three months more and see how much we can get. Now, it seems to me that if this is announced, the minute this is announced, and certainly the minute the statute goes on the books, it is going to cut into your receipts from voluntary savings very, very substantially. Now, I am wondering if you can't accomplish both objectives by letting this thing ride in the House and then putting it on in the Senate. If you can do that, you will have had this time so that the program, unharmed by this impending movement, will be able to prove what it can do.

H.M.JR: The reason that your suggestion isn't acceptable to the President is, he wants to make a speech on the twenty-seventh of April where he is going to say everything he has got in his mind.

MR. SULLIVAN: And insists on including this with it?

H.M.JR: Wallace told me the President is for forced savings. Wallace is for forced saving.

MR. FOLEY: I think we have got to come to it sooner or later. I see no reason why we shouldn't recognize that.

MR. WHITE: It seems to me--

H.M.JR: Just a second, Harry. Go ahead Randolph.

MR. PAUL: I think the flexibility devolved in it is very ingenious. I take it that at whatever stage

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the bill is in on April 27, it would be necessary then to bring the matter up in the regular legislative process and the end of it would be that there would be no complication of the tax bill except the intrusion of forced savings. I am for that. I think that part of it won't unduly complicate things. It may require further hearings, but that will only be a delaying factor. I think we can show reasons why - reasons for an extension of our front, and that was one reason for our embarrassment. The budget figures are up, and so on. So I think it is a good idea. I am awfully glad to get the sales tax out of the way.

H.M.JR: You haven't got it out of the way.

MR. PAUL: Well, I think we are helped a great deal by the President's statement.

H.M.JR: Well, today he told Wallace he wanted it by another name.

MR. PAUL: Pardon me, I thought you said that he didn't.

H.M.JR: Well, our man who was at the press conference reported the President saying, and the newspapers said, that he came out flatly against it.

MR. PAUL That is what I understood.

H.M.JR: This morning he said, "Call it excise tax or anything else, but don't--"

MR. GASTON: Their name is war consumption tax.

MR. PAUL: I think we have got to see to it that there isn't a verbal confusion there, that we ought to do our work between now and April 27 on that.

H.M.JR: Well, this gives us a lot of time.

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MR. PAUL: But then, of course, on the personal exemption I have felt from the beginning that we should lower it, but think now that we have taken the other position it would stick out like a sore thumb if we changed our position.

H.M.JR: How do you mean?

MR. PAUL: I was originally for lowering the exemptions, as you know. But we went up on the Hill and said we didn't want to lower it. Now, a change of front on that, particularly if you additionally change your front on the sales tax, means that you pick out two points, both of which hit the lower income groups, and change your mind about them so that your whole additional program falls on them.

H.M.JR: Let's say that they give me a new front. It isn't the old front. I am not changing my mind. It is being changed for me. Last year I didn't want to lower it to seven hundred fifty dollars, and I had to do it at the end. I mean, that is one thing, one unpleasant part you will have to learn. I haven't changed my position, but what are you going to do against a gang like this?

MR. PAUL: Well, if the sales tax and the lowered exemptions problem is still open, then we are just about where we were.

H.M.JR: I am just trying to be realistic.

MR. PAUL: I think your forced saving idea is a good one.

H.M.JR: Well, I wouldn't- well, you sat in all the discussions and heard a lot that I haven't. But as to the forced savings--

MR. PAUL: I think that is an ingenuous development. I mean, I think we provide for one of our fears there.

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We get it higher, which is very good, and we also get flexibility in the sense that we can put it on at any time, and we can take it off if it doesn't work. I think that is very good.

H.M.JR: George?

MR. HAAS: I think the whole situation is very difficult, and I think we have reached a very good compromise. There is only one point I would like to emphasize, that if when Henderson hears that you are willing to go along on this, he would not think that he can go leisurely on his rationing, because I don't think this forced saving - the initial part is easiest to get, and it is most effective. Afterward, when we bring out that pressure he spoke of, the only way to handle that is through rationing and direct control; so if the heat stays on Henderson's crowd to push rationing, that they don't relax on that.

H.M.JR: Ferdie?

MR. KUHN: I think it is just as harmful to talk about forced savings three months in advance as it is to talk about a sugar rationing well in advance. You are defeating your own ends by talking about it, and taking the heart out of the voluntary savings campaign. If we are going to do the forced savings, that is one thing; and if we are just going to hold it as a threat over peoples' heads, and it will operate as determined from the purchase of regular Savings Bonds, that is another thing. Secondly, I think the one to fifteen percent - I suppose it is one to fifteen percent of the total pay roll, and not of individual earnings.

H.M.JR: Yes.

MR. KUHN: Because it has got to be graduated in order to be fair, hasn't it?

MR. GRAVES: That couldn't be applied, except on a uniform basis.

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H.M.JR: I mean, you might have a sliding scale; but when I was talking one to fifteen, I was talking of the total amount.

MR. WHITE: I doubt if Congress would give you the authority both to raise it from one to fifteen, and permit you yourself to set a schedule of progress, a progressive schedule.

H.M.JR: The President.

MR. WHITE: Or the President.

MR. KUHN: The flat rate for individuals is just as unfair as a sales tax, because it doesn't take any account of what a man earns and what he has got to pay.

MR. PAUL: But it isn't a tax, Ferdie. I mean, it goes back to him. It isn't as unfair as the sales tax, because it isn't permanently withheld from him.

MR. KUHN: But he has got to pay it.

MR. PAUL: It comes out, yes, but it goes back to him, whereas the sales tax never does.

MR. KUHN: I don't see that that makes any difference to the man who can't afford this, and who has got to cut down in order to meet it and to the other man who has plenty to spare and who can just pay it like that. I was trying to find out whether the idea was one to fifteen percent of the nation's pay roll--

H.M.JR: One to fifteen percent of the nation's pay roll.

MR. FOLEY: Nothing to do with rents or dividends or interest?

MR. BLOUGH All income.

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MR. HAAS: Then you would have maybe as high as a hundred and twenty billion, fifteen percent of that.

H.M.JR: Well, they figure five percent on--

MR. BELL: Sixty billion was the figure they used the other day.

MR. BLOUGH: They were figuring on an exclusion at the bottom of five hundred dollars for a single person, and a thousand dollars for a married couple, not an exemption, but an exclusion at the bottom.

H.M.JR: Well, I have got Green coming in at three o'clock, and I want to give Harold the chance to know this. I didn't want to keep Mr. Green waiting.

MR. GRAVES: Well, I don't think that this is practical at all for the reason that if the President were to say this in his talk on the twenty-seventh, I think that would practically kill any hope of reaching the objectives you had in mind on a strictly voluntary basis. If we are to reach those amounts that we talked about the other day, we can only do it with the cooperation of the management and labor in all of the thousands of plants that are involved in the pay roll savings plan.

H.M.JR: Excuse me a minute.

MR. GRAVES: In my opinion, to announce that kind of a program, especially if it is coupled, as I understood you to say, with the prospect that you at once apply one percent pay roll savings, I don't think you could count on the cooperation of management or the cooperation of labor. That would be absolutely essential to the success of the voluntary plan, if we are to reach anything like the amounts that we talked about the other day. You take the one percent withholding. It takes just as much machinery, just as much labor, on the part of the people that you would expect to collect that one percent for you, to collect that one percent

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as it would take to collect fifteen percent; and the people who would be collecting that one percent are the people that are now administering the pay roll allotment plan, which is the keystone of the voluntary thing. To expect them to come in--

H.M.JR: How many businesses have you got now that have the pay roll allotment plan?

MR. GRAVES: Big and little, about forty-four thousand.

H.M.JR: That is what I told Nelson. He couldn't believe it. I said forty-four thousand.

MR. GRAVES: That is right. I think that if such a program were announced, it would just put an end to any chance for the success of the voluntary thing in the dimensions that we have been talking about. It just won't do.

MR. BELL: Do you think that just asking for legislation to put it in to effect when the time comes would do that?

MR. GRAVES: Yes, especially if you had involved in your announced plan the application at once.

H.M.JR: Well look, this is so important and I have got two appointments, one at three and one at three thirty. When the three-thirty goes, I will ask you to come back. In the meantime, you can be thinking about it, but I am not going to rush you on this thing. I mean, I don't want to cut a fellow off in thirty seconds. When you come back, I will give you plenty of time.

MR. GRAVES: All right.

H.M.JR: As soon as my second appointment leaves. You know who is coming at three thirty? I have got a ray that will kill people through the wall.

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MR. PAUL: Where was it this morning?

MR. BELL: Murray came out strongly against the sales tax, didn't he?

MR. PAUL: Hetzel did for him. I talked with Hetzel up there yesterday.

H.M.JR: Well, as soon as this second appointment leaves, I will get in touch with you, and you can come back, and we will have another discussion. In the meantime, don't burst any blood vessels, Harry.

MR. WHITE: I will try not to, because I have a couple that will break.

April 8, 1942
4:00 p.m.

INFLATION

Present: Mr. Sullivan✓
Mr. Gaston✓
Mr. Bell✓
Mr. Blough✓
Mr. Graves✓
Mr. Kuhn✓
Mr. Haas✓
Mr. White✓
Mr. Paul✓
Mr. Foley✓
Mr. Odegard

H.M.JR: I take it they brought you up to date, Odegard. I am very glad to welcome you in this crowd.

MR. ODEGARD: I am not so sure I am glad to be here.

H.M.JR: I am serious.

Well, Harold, you continue. Look what Harry White has done. He has gotten over on the other side of Harold so I would call on him first. (Laughter)

MR. SULLIVAN: Leave him right there, boss, we are going the other way.

MR. GRAVES: Well, I think I had practically concluded what I had to say. I might sum up by saying that I feel that this is not a thing that can be compromised, that if voluntary savings are to have any change at all, there can be no announcement of any other alternative program.

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I think that the decisions should be made now whether voluntary savings are to have that chance and, if that is the decision, then I believe, as I said on Monday, that perhaps by July we could demonstrate what can be done with voluntary savings so that you would know and everybody else concerned would know whether that was a feasible approach to this problem. I think that if the President is to go as far as he suggested on the twenty-seventh of April, it would be much preferred for him to go the whole distance and say he is recommending a program of compulsory savings. All that is without any reference to my own feeling about the merits of compulsory savings, which I am violently opposed to.

H.M.JR: Why?

MR. GRAVES: Among other reasons, the administrative difficulties of the thing. My own preference for a straight tax instead of the collection of money that is, after some lapse of time, to be repaid. That is to say, if we are going to try to get this income by compulsory methods, in my judgment it would be far better to take it in taxes with no obligation on the part of the Government to repay it. There is one other part of the plan that you suggested that I would like to comment on and that is the proposition of using OCD. I think that is something that ought to be very carefully canvassed before any commitment to use OCD as such is made on this voluntary plan if it is to be continued. I think that that would be apt to get us into grave difficulty and do more harm than good.

H.M.JR: Well, Harold, here in the Treasury family I am going to be very honest. Here is this whole group around the President who, without a single exception, say that we can't get this money. We have got to get it, and I agree with them that we have to get it one way or the other. There is nothing in these figures to give me any confidence that we can get it. Now, after all, for the first seven days of April we are nineteen percent behind March and for the first seven days of March we were thirty-seven percent off over February. Now, I just don't know where this thing is going to disappear to. Now, it is all very nice to say that that is following the same course

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the United States Savings Bonds did, but we had practically no sales campaign, one or two men doing mail order and that is all. Here we have got this vast publicity campaign, and we are at war and my sales just dwindle out between my fingers.

MR. GRAVES: Well, I think you are. I have canvassed that. I feel that with the announcement of quotas that you and I were on the verge of announcing, that you find a sharp change in those results. You see, we have been going on all these months opposed to quotas. That is, that was our stated policy, rejecting quotas. We have made our program one that people could participate in or not as they chose, one in which people could determine how much they were to invest with not even a suggestion from the Treasury as to what the dimensions of the program were. You have been asking me to go ahead and try to induce corporations to increase participation; and, in connection with that, I told you that we would have to tell these people what we considered satisfactory participation would be.

H.M.JR: Well, I asked you to pick out, while I was away - I asked you to pick out some, and I don't know what has happened. Nobody has given me a report.

MR. GRAVES: Well, we did that. We picked out two companies and that work is progressing right now, but, as I told you--

H.M.JR: But Harold, your people here, and they can interrupt me if they want - until I had a week to think this thing over in Arizona, nobody, Kuhn, Odegard, or Graves, said to me, "We can't do this thing without quotas." There isn't a one of you that said to me, "Morgenthau, in order to make this thing a success, we have got to have quotas."

MR. GRAVES: Well, I told you that immediately upon your return.

H.M.JR: Well, when I told you what I wanted to do,

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I came back and said, "Something has got to happen," and you could tell from the telegrams which I sent--

MR. GRAVES: Exactly--

H.M.JR: You could read the handwriting on the wall. There wasn't a one of the three of you before I went, and then I sent these dirty telegrams.

MR. ODEGARD: When was this, Mr. Secretary?

H.M.JR: Three weeks ago. When I was in Arizona I sent these telegrams to Bell and Graves, and when I found things the way they were out there, I got excited about it. But before I left, which was on the - when was it?

MR. BELL: The twentieth, wasn't it?

MR. KUHN: It was the twenty-seventh.

H.M.JR: Was it the seventeenth or the twenty-seventh?

MR. FOLEY: It was the twenty-second. The seventeenth was Tuesday, Mr. Secretary. It was the end of that week.

H.M.JR: We left on Sunday the twenty-second and I got back here on the thirtieth.

MR. ODEGARD: I think you will find that the preparation of the savings schedule which set a definite goal - we didn't like the word "quota" and we didn't call it quota - but the things to set a definite goal for different groups had been formulated and completed at least a month ago.

MR. GRAVES: More than that. The Secretary used it in his Baltimore speech.

MR. KUHN: February 14.

MR. GRAVES: But we never did get to the point of

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throwing that at the participating companies and asking them to use that as a yardstick--

H.M.JR: And there is nothing in Oregon to prove, after your pledge campaign, that it had any effect on your pay-roll deduction plan, because I had George Haas and Tickton go into that whole Oregon situation, and we were pinning our whole faith on this pledge campaign and there is nothing to prove that that is going to get the results.

MR. GRAVES: Well, I don't know what Mr. Haas may have told you. He has told me nothing about his analysis so far as figures go, but I disagree with that.

MR. HAAS: Our statement, I don't think, Mr. Secretary, if I recall - I think the figures for Oregon were better than the average for the country as a whole. There is nothing conclusive about the Oregon situation.

H.M.JR: I asked Tickton if he could see that the pledge campaign in Oregon had any effect on the pay-roll deduction and the answer I got was no.

MR. HAAS: You asked me that in a wire or something, and we looked into it and we couldn't get anything - it didn't interfere. The two plans went along together, and the performance in Oregon on the number of companies which are participating and the amounts and so on, the Oregon State average is higher than the average for the country as a whole. I don't know what conclusions you can draw from that. You couldn't say it was--

H.M.JR: Anyway, that is the impression I got. I mean, the point that I am getting at is simply this: For me to say to the President of the United States tomorrow morning - we are talking here inside of this room - "I can guarantee you a billion dollars a month of E Bonds for the month of July and a constant increase each month over that, a constant increase, each month a little bit more, throughout the year providing that you say to us that from now until July you will give us the wholehearted support of the volunteer plan." Now, I think that

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for me to do that, to put my head in that noose - I just frankly haven't got the confidence.

MR. GRAVES: Well, I don't think you should. I never suggested that you should.

H.M.JR: And you wouldn't do it yourself.

MR. GRAVES: No, I wouldn't do it myself. But here is the funny thing about that, Mr. Secretary. You and I are asked that, can we produce a billion dollars a month after July out of savings which, if not invested in Defense Bonds, will be spent. The counter proposal, as I analyze Mr. Paul's memorandum which you gave me Monday evening, is a forced savings scheme which, if Congress should adopt it, will produce three billion dollars in a year and a lowering of income tax exemptions which, if Congress will adopt that, will produce two, a total of five billion. We are asked to give up the prospect of a billion which we are doubtful about to take five billion - I mean a billion a month to take five billion a year. That is just as ridiculous to me as anything could possibly be because the five billion, if you get it, will kill all chances to get a billion a month.

H.M.JR: You know what their answer will be. "Well, if that isn't enough, we will just make it ten percent."

MR. BELL: I think their answer is that they want the five billion in addition to what you expect to get in Savings Bonds.

MR. GRAVES: You will get nothing in Savings Bonds.

MR. BELL: That is where I think the whole thing is wrong.

MR. GRAVES: You will get nothing in Savings Bonds if you introduce a forced savings scheme and lower your income tax exemptions. You kill the voluntary thing. You lose a billion a month, or what chance you have to get a billion a month, to get half that much.

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MR. BELL: I think that is right.

MR. ODEGARD: I haven't heard all the discussions, but I am convinced that these two plans are more or less mutually exclusive, Mr. Secretary. I honestly don't think that you can go on on a voluntary basis of savings and have a system of compulsory saving at the same time, realistically. Now, I ask this question. Can you get this legislation that you propose to ask for? //

H.M.JR: Well, the President is going to ask for it.

MR. ODEGARD: If you can't get the legislation, even if the President asks for it, then what is the effect of the request for this legislation upon the Defense Savings program? //

H.M.JR: Lew Douglas came in here when he first went in and said, "Can't you give us the statement that there will be no forced savings?" Do you remember?

MR. ODEGARD: Yes.

H.M.JR: And I told him I would love to, but I can't do it because I don't know what is going to happen. Do you remember? Don't get me wrong. I am for this volunteer plan. At lunch Nelson said, "Why are you so strong for it?" so I gave him the reasons, the mental processes that the people have to go through and all the rest of that and what it is worth to have them do it on a volunteer basis, the cooperation and so forth and so on.

(The Secretary held a telephone conversation with Judge Rosenman as follows:)

April 8, 1942
4:19 p.m.

HMJr: Hello.

S: Here's Judge Rosenman.

HMJr: Thank you.

Judge
Rosenman: Henry.

HMJr: How are you?

R: I'm just leaving the office to go up and marry
a cousin of yours.

HMJr: Which one?

R: Rita Morgenthau's daughter.

HMJr: (Laughs) Oh, really? That's very nice.

R: She's getting married.

HMJr: Good. The reason I'm calling you is, the
Vice President has informed me that he, and
you, Harold Smith, and Eccles, myself - I
don't know - there were six of us all together -
and Henderson - are to write him a speech on
the cost of living and inflation.....

R: Yes.

HMJr:between now and the twenty-seventh of
April.

R: Uh huh.

HMJr: And I was making some plans, and I didn't know
just what your schedule was and when you were
coming down here.

R: I'll be down tomorrow.

HMJr: Tomorrow.

R: Did Harold show you the draft of a message?

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HMJr: No, he did not.

R: Well, we've been working on the draft of a message - did he say a message or a speech?

HMJr: He said a speech.

R: I see. Well, it must have changed.

HMJr: And so I wanted to make my plans accordingly and - well, you're going to be down tomorrow?

R: Yeah.

HMJr: Well, supposing you give me a ring and let me know when you want to work.

R: All right. Well, now, who - well, we'll have to find out from those other fellows, too, won't we?

HMJr: Yeah.

R: Well, now, who's going to - all right. I was just thinking about who's going to act to get them together, Wallace?

HMJr: Well, I suppose you will. I say, I suppose you will.

R: Well, all right. I'll give you a ring tomorrow, Henry.

HMJr: Yeah. And.....

R: Is the date set, the twenty-seventh?

HMJr: That's what Wallace told me.

R: Uh huh.

HMJr: Yeah.

R: All right. This is the first I've heard of.....

HMJr: Well, I was calling you. I didn't know whether

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they'd called you, but I didn't know whether I would go away this week-end or whether I'd stay here and work, or how you wanted to do this, and so forth and so on.

R: Well, suppose I call you tomorrow?

HMJr: Will you?

R: Yes. When would you be going?

HMJr: Well, if I'd go away, I'd go away Friday night.

R: Oh. All right. Well, I'll call you tomorrow.

HMJr: Right.

R: Okay.

HMJr: Good luck.

R: Fine.

HMJr: I hope you get ten dollars.

R: I don't get a cent, damn it. Maybe I'll try to - maybe this time I'll send you a bill.

HMJr: Well, take a - make them give you a Defense Bond.

R: (Laughs) Okay. It's a big wedding.

HMJr: Good. Well, it ought to be worth two Defense Bonds.

R: I'll get something to eat.

HMJr: All right.

R: I'll get something to eat.

HMJr: All right.

R: Okay, Henry.

HMJr: Good-bye.

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H.M.JR: Just so that you get the complete picture, I am in a good humor this afternoon because the more dirt I get - Judge Rosenman just said, "Have you seen the message to Congress that Harold Smith has got all drafted that we have been working on?" (Laughter)

MR. BELL: This committee is just window dressing.

H.M.JR: He said, "We have been working on that for a long time." I didn't know it was a speech. The message is all drafted.

MR. BELL: Harold told us the other day that the message would almost take the form of an Executive order.

H.M.JR: He didn't tell us it was drafted.

MR. HAAS: He said the outline of the memorandum.

H.M.JR: Nice people.

MR. BELL: I think you can go away for the week end.

MR. WHITE: Well, it takes less time to change a draft than to write a new one.

MR. PAUL: Not one of his.

MR. GASTON: Do you think so? It will take a long, long time.

MR. WHITE: I can tell better after I see it, Herbert.

H.M.JR: I don't think there is much use wasting time on it. Go ahead, Peter.

MR. ODEGARD: I am concerned with one thing and that is this suggestion that we stop, in the Defense Savings Staff, the announcement of quotas, the plans that we had underway for a more intensified--

H.M.JR: You would do what?

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MR. ODEGARD: I say that we stop the plans we had underway for a more intensified program. I think if we could go ahead now regardless of what the plans may be, whether hopes or fears, for compulsory saving, that Treasury would certainly be in no worse position if the decision is later to adopt a plan of forced saving.

MR. PAUL: But you are not facing the lemon that they have, that this plan which the President announces which is sponsored by Mr. Smith must be intellectually symmetric. He can't propose part of the thing and not all. They have said that repeatedly, we can't announce anything but an all-out program, all the way down the line. Hansen was frank enough at one time to say, "What will the editorials say if we don't cover this point?"

MR. ODEGARD: I think what the editorials are going to say, as Ferdie has been talking about and I think very, very realistically too, what the editorials and columnists are going to say if this whole business gets into the hands of the Arthur Krocks and the Frank Kents and so on, and they say, "Well, the Defense Savings Staff, the voluntary effort is a failure anyway," that is, the compulsory savings people needling these columnists, whether consciously or unconsciously, have a devastating effect not only upon the voluntary savings program but I think they add to the conflict and so on. Our program has one very great advantage, that we have no partisan flavor. I think perhaps almost without exception in our effort in the defense program the Defense Savings Staff has come clean of almost any partisan hostility or any factional hostility, and we are in a much stronger position to push ahead on a more vigorous intensified program than almost any other agency in the Government, and we sacrifice that, in my judgment. If the President asks for this, if he asks for it, then I think we ought to be prepared to more or less abandon the voluntary effort and go all-out for a really substantial program of compulsory savings on a graduated basis that will yield not two or three billion dollars a year but will yield ten or twelve or more, and my preference would be all sorts of taxes and have done with it except perhaps to sweeten it--

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MR. GASTON: Your preference would be what, Peter?

MR. ODEGARD: To make it a straight out tax.

MR. GASTON: And not have it a forced loan at all?

MR. ODEGARD: Not have it a forced loan except perhaps where it may necessary to sweeten it at the lower end.

MR. KUHN: In cases of privation.

MR. ODEGARD: I would exempt those cases anyway from the tax. This, it seems to me, is neither fish, flesh, nor fowl, as I see it. Now, I am not an expert.

H.M.JR: Well, I am sorry you haven't sat in on more of these. One place where I disagree with you, and I think Harold will agree with me, is that he wouldn't want me to put my own signature on a letter to forty-four thousand corporations and write a letter to the head of every unit saying that on the fifteenth of April we are starting a plan whereby we are asking them to deduct ten percent from the pay roll and this is a must, you see. And then the first of May start a quota of so much per county and so on and go out on this thing. If we were to write forty-four thousand corporations and ask them to do this, "This is the thing that Washington wants, this is what the Treasury wants, and this is what we want from here, you have got to do this thing," and then on the twenty-seventh of April have the President go to the country on a fire-side chat and tell them what we want to do is to raise five percent through forced savings, I don't think Harold wants me to do that.

MR. GRAVES: I don't.

H.M.JR: Peter said he thought we ought to go ahead no matter what is in the offing.

MR. GRAVES: Anything short of an announcement that the President is going to recommend legislation for forced savings.

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H.M.JR: Do you want me to do that?

MR. GRAVES: Not if that announcement is going to be made.

MR. ODEGARD: Not if the President is going to make that announcement, Mr. Secretary, but until we know that he is going to make that announcement, if there is any doubt that he will, I think we ought to go ahead.

H.M.JR: Well, Wallace this afternoon came from the White House and said the President was for forced savings. I am seeing him tomorrow morning, and I will know. When I come back from there tomorrow morning I will know. I will make it my business to know.

MR. KUHN: Mr. Secretary, the point that Peter made was this very strange absence of any leaks among the columnists who are just itching to get onto this subject. There has been nothing from Sullivan, Krock, Frank Kent, or any of those babies, and I am just sure that they are going to come out with the indirect story of this controversy within the Government and are going to come out and say, "Well, the Treasury thing has been a failure," and that is going to react on our campaign--

H.M.JR: Where are they going to get that from?

MR. KUHN: From the people who usually feed them around town.

H.M.JR: Let me see - you mean that once these people know the President is for forced savings, they are going to tell them that?

MR. KUHN: Even if he is not, Mr. Secretary, because the favorite way of fighting a case in town is to fight it in the newspapers; and, if the people around town are bluffed, they go to the columnists.

H.M.JR: Well, this crowd that was in here this morning doesn't work with that crowd of columnists. I mean,

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that isn't the crowd that does it.

MR. KUHN: The OPA and the War Production Board and all those people?

H.M.JR: Well, Ferdie, if you don't mind, I want to make up my mind as near as I can on what is right without watching the gallery.

MR. KUHN: I only thought of its effect on it.

H.M.JR: After all, from coast to coast every editorial writer in the United States condemned me for my six percent plan and I didn't get any support from the Administration, and now Robert Taft comes out and says it should only be five percent. So I mean, I can't be guided by what the newspapers will or won't say. I mean, I can't say, "Well, I won't do this because the newspapers may or may not attack me."

MR. KUHN: That wasn't in my mind. It was simply what Dan had said about the effect of discussion on the sale of Savings Bonds.

H.M.JR: Well, to sum up, if I may, the impression that the three of you leave with me is that you want me to tell the President that he should make up his mind either to continue to give us this chance until July to demonstrate we can or cannot or to say he is going to go for forced savings, and I should say to him, "Well, then, make up your mind that the voluntary plan will just peter out. Whatever you are counting on from this, just strike it off the books."

MR. GRAVES: With this addition, if I may repeat. I think the President's attention should be called to the fact that the concrete proposition, so far as it has crystallized, is for five billion dollars a year.

MR. WHITE: Six and a quarter.

MR. GRAVES: No, the one and a quarter is a sales tax, as I suppose, which need not have any material effect

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on a voluntary savings plan. It will have some, of course.

MR. WHITE: I say, if you wouldn't get that--

MR. GRAVES: Well, six and a quarter.

MR. SULLIVAN: As against what?

MR. GRAVES: As against twelve. Now, I think that you would not be taking a risky position at all if you were to say to the President that you can exceed that six and a quarter billion on a voluntary - on a continuation of the Defense Savings program.

H.M.JR: Say that again, will you please.

MR. GRAVES: The specific proposal that is stated in Mr. Paul's memorandum is for lowering of income tax exemptions which will produce two billion dollars, compulsory savings which will produce three billion dollars, and the consumption tax item which will produce a billion and a quarter, or a total of six and a quarter billion dollars in the fiscal year '43. Now, I said that I thought you would be entirely safe in saying to the President that we can exceed that six and a quarter billion dollars by continuation of the Defense Savings program, so if the choice between those alternatives - I believe the President ought to be urged to leave the voluntary program alone.

H.M.JR: You mean as between that and six and a quarter?

MR. GRAVES: Right.

MR. SULLIVAN: Sure.

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MR. GASTON: Harold's point is that we are not talking here about a mere matter of increasing the amount of the voluntary savings. This twelve billion dollars a year, billion a month program, contemplated increasing the voluntary savings by some five billions of dollars; but his point, as I understand it, is that the whole voluntary program is imperiled by putting into effect compulsory savings, which means wiping out some six and a half billion dollars we are now getting from voluntary savings, but I don't think--

MR. WHITE: That is not fair.

MR. GASTON: I don't think that would be wholly true. I think you could save a considerable part of that voluntary program. I think you would lose some of it without a doubt.

MR. PAUL: Of course there would be a period from now until, say, July when you would lose - you would be getting neither the one nor the other. Anything you lose on the voluntary would be minus, and you wouldn't have the compulsory in effect. You must take that into account.

MR. GRAVES: Isn't there another important thing that has to do with the technique of this thing?

In my judgment, the minute you expect employers throughout the country to collect your three billion in enforced saving, that kills the pay-roll allotment plan. That will kill the pay-roll allotment plan, so that you will lose entirely except for what casual buying employees will make in banks and post offices.

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H.M.JR: Of the forty-four thousand corporations signed up, how many employees does that represent?

MR. GRAVES: About twenty million.

H.M.JR: You mean twenty million are exposed?

MR. GRAVES: That is right. Our participation there, as you have noted, is constantly increasing. Now, it is about forty-five percent.

H.M.JR: You know, you would think this crowd discovered inflation. I look in my Boston speech in September, and I say we have been talking about inflation for a long time as if it was a threat remote from our daily lives. We are facing it now, and we must deal with it at once.

MR. WHITE: That was six months ago.

H.M.JR: September. They act as though they discovered inflation.

MR. GASTON: This group in the Treasury, Dan's Friday lunch, has been talking this inflation thing now for a year.

MR. BELL: Since October, 1940.

MR. SULLIVAN: It seems to me, Mr. Secretary, there is one very important aspect of this thing.

(Mr. Foley left the conference.)

MR. ODEGARD: Mr. Secretary, on the quotas, just as a matter of historical interest, in a memorandum which I sent to you on January 14, 1941, you will find a suggestion of the possibility of quotas.

H.M.JR: Recommending it?

MR. ODEGARD: Not recommending it, not disapproving it, suggesting it. The idea had been thought of. I merely suggested it.

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H.M.JR: I said recommended to me. What I say, and I repeat, is that until I got back here on the thirty first, nobody had said to me in the Defense Savings group that in order to make this thing a success you have got to have quotas.

MR. BELL: Had you talked about a billion a month before?

H.M.JR: Yes.

MR. SULLIVAN: It seems to me, Mr. Secretary, that this discussion is completely neglecting one aspect of the situation that I consider very important. Everything we talked about so far has been very cold blooded, just dollars and cents. I think you know my opposition to enforced savings, but what I am going to say now has no relationship to that. I think this Defense Savings plan has been not only the biggest job the Treasury has undertaken, but it has certainly been the most widely publicized cooperative effort the American people have ever engaged in; and if while this is just getting underway we quit and admit that it is a failure, there are going to be repercussions throughout the country, intangible and incapable of measurement, but I think they are going to be very serious and very harmful.

(Mr. Foley entered the conference.)

MR. SULLIVAN: You have thousands of people all over the country who have been doing good patriotic work, contributing their time and their efforts and their talents.

H.M.JR: How many have you got, Harold, just roughly?

MR. ODEGARD: Seventy-six or seventy-eight thousand.

MR. GRAVES: Well, it is more than a hundred thousand members of our local committees.

MR. SULLIVAN: Now, all of those people are going to feel let down. In addition to that, I think that

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everybody who has bought a bond is going to feel a little bit peculiar about this situation. Yes, I do, sir. I mean, when a person buys a bond now, that is a chance for him to make a voluntary patriotic contribution to his Government, and there isn't any amount of money you can get out of a legally enforced contribution that is going to make up for the morale that goes along with that voluntary contribution. Whereas, Harold points out that the twelve billion a year that he hopes to get through voluntary exceeds the amount that this program calls for, I would say that even if you didn't get but three-quarters as much out of the voluntary savings as you get out of this program with the enforced savings, I would still be in favor of the voluntary system. I don't think that you can go ahead with this thing on a purely cold-blooded regimented basis and get half the response in morale from the country that you will get under a voluntary savings plan.

Now, Mr. Secretary, maybe it is true that the President has told the Vice President he is for forced savings, but I would be rather inclined to - disclined until I learned otherwise to believe that he told anybody he was for it until he discussed it with you.

This is your baby, and I think he is going to listen more to you and your views than all of the crowd that is around him. Not only have that crowd not been intimately acquainted with what has happened in this drive, but they never were for it in the first place, I don't think. I think they were all for voluntary savings or some type of Keynes' plan from the very beginning.

H.M.JR: You mean compulsory.

MR. SULLIVAN: Yes.

MR. ODEGARD: Mr. Secretary, can I ask this question?

H.M.JR: All right. Harry is going to have a

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MR. WHITE: Sure is. The clock is moving around, and they are going to adjourn before they get to me.
(Laughter)

MR. ODEGARD: The question I would like to ask is this. If we went ahead on a withholding tax basis, a straight-out tax, I hope it wouldn't be a flat tax, but a graduated tax. Then we could save, it seems to me, a very substantial part of the voluntary savings program if that is a straight-out tax; but if it is in the nature of a savings program, a compulsory savings program, you are saying to the American people, "This is what you want us to save," and they are through saving. I think it will kill the savings program if you call it a compulsory savings program. If you call it a straight-out tax program, even though you collect the same amount of money, the chances of saving the voluntary savings program are greater than if you call it a compulsory savings program.

H.M.JR: Now if you will all just give me one minute, please. Are you through, John?

MR. SULLIVAN: No, I had just two more comments I wanted to make. I know that there are many people who are now for forced savings because they are scared to death of the word "coercion," and they think that between the present leaning-over-backward program and actual coercion there is no midway, and I don't agree with them. I think that a great deal more enthusiasm can be put into this campaign without coming to anything that is really coercion. The other thing I want to suggest is this, that I think that in the April 27 speech the President can very well go on with the rest of his program and say, "We must have so much from savings. If we are unable to get it from voluntary savings, we may have to adopt some other system," and I think he can do that, and he can present the entire picture just as well as he can by coming out and enforcing compulsory savings. That is all I have to say, sir.

H.M.JR: Herbert?

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MR. GASTON: I think that the mere announcement that a plan of compulsory saving is going to be put into effect will have some effect and a decided effect upon the voluntary program. Just the mere announcement of putting that into effect will have a much stronger effect on it, will hit it very much harder. It will practically kill the voluntary program when you put it into effect, so I think you can't contemplate a program initiating at a rate of one percent or even five percent as a general proposition. I think you have got to start in. If you are going to do this thing, you have got to start in quick, and I think you will have to scale it down to the little taxpayer, but I think you will have to have a rate upward of ten percent. Now, if I thought we could stop the sales tax and stop a lowering of exemptions, I think I would say that would be all right to do that, recognizing the fact that you have got to have a drastic program of compulsory saving; but I don't think we are going to be in a position to dicker at all, so I think it would be better just to say what are the disadvantages, what are you going to do to a program that is yielding at the rate of about five billions a year now and can yield considerably more, and that they are proposing an alternative that probably won't yield anywhere near as much.

H.M.JR: You are not getting anything like five billion now. In March you got three hundred thirty-four.

MR. GASTON: Total?

H.M.JR: Of "E" bonds.

MR. GASTON: Oh, that is "E" bonds only.

H.M.JR: And you are running twenty percent below March now.

MR. HAAS: But, Mr. Secretary, there is a large volume of savings that under no conditions would come through into the Treasury via the Savings Bonds, which are anti-inflationary, and you want to preserve those. We were estimating that personal savings would be fifteen and a half billion.

H.M.JR: Where will they go?

MR. HAAS: They are in the same status as the "E," "F," and "G." The key point of the whole thing is this. When you say you want forced savings, what do you mean by forced savings? You mean savings that won't be spent. By putting them in this way, do you achieve this not-spending that is wanted in that manner? This rationing brings about a forced saving, because it prevents spending.

MR. BELL: That is what you want.

MR. HAAS: That is what you want, and you could continue with a so-called voluntary effort if the rationing is extensive, and I think what is going to happen here, and you remember, Harry Hansen said even a year from today you may be over-all extensive rationing, but he said the public is not prepared for that.

H.M.JR: Harry?

MR. WHITE: I think much of what has been said is very cogent; but if one analyzes the two different types of saving which are the issue, I gather, the program which you now have of voluntary saving has two important objectives. One is to raise money, which is a question of magnitudes from the proper sources, raise it from the proper sources. The second is the psychological, the morale-building effect, which is very real and very important. Those are the two objectives. Now, with respect to the first objective, that of magnitudes, I don't think the voluntary saving has any chance to satisfy the requirements that we are going into. In the first place, it is not twelve billion that you are raising. It is only six from the sources that we are talking about. You are only going to - the maximum, if you are successful a hundred percent, you expect to get ten percent of the salaries, and that isn't twelve billion, that is closer to six. They are about equal amounts, six and a quarter and six, because the other type of saving is going to take place anyhow. People are not going to throw money down the sink or put it

in a rat hole when they can get three percent for it, so you will have plenty of people investing still on the voluntary saving, so I think from the point of view of magnitudes it is very doubtful that you will get enough. I agree with Harold that a forced saving plan must start with something substantially more than one percent, because it will greatly curtail the amount that you expect to get from voluntary sources. Now, the chief point is that voluntary saving is out the window the moment you introduce forced saving. I don't see that at all if you forget magnitudes and confine yourself to the psychological and morale-building effect. In fact, I think you can do a far better job in building morale, in selling democracy, in getting the war spirit, if you are not concerned with the fact that you have got to make a quota, because being concerned with that you very gradually and surely go to methods that only with a stretch of imagination can be called voluntary saving, and you resort to types of pressure which cause a boomerang; whereas if you are free from the necessity of attaining a certain level, depending upon forced saving to give you the magnitude, then you can make your appeal a pristine, patriotic appeal. You can do everything you are doing now and double it and get good results, and I think it will yield some quantity unquestionably.

H.M.JR: What is a pristine appeal? (Laughter)

MR. WHITE: It is a new kind of appeal. You have to be young to have it. (Laughter) So I think much of the cogency of your argument, the appeal that John and the rest of you are making, which is very real, because I too am impressed with the fact that I think this program is the best morale building there is, I think it has even greater possibilities, and I would like to see your efforts concentrated on that kind of appeal, rather than appealing to a man's patriotism by holding a gun to his head, which is what it will get to when you have to deliver a billion dollars by a given time, so that I don't see why both possibilities do not exist. Go ahead with your voluntary program, but don't expect to get quantitative results that are large.

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Depend upon that for your forced saving, which will help your tax bill, because with the forced saving you don't have to talk about reducing exemptions. You can start lower.

MR. GASTON: You have got to leave people something to live on. They can't live on a non-cashable bond.

MR. WHITE: Well, the bond could easily be made, I take it - those are just administrative features. You would make the collateral for a loan at low rates of interest under special circumstances.

MR. GASTON: And if you go to this new principle of a forced loan, aren't you going to adopt the income tax principle, and aren't you going to have to grade it all the way up to income available?

MR. WHITE: I am in favor of making it progressive and not a flat rate, but, of course, this plan of mine is a second choice anyway. The first choice is out.

H.M.JR: Harold?

MR. GRAVES: I think there is one thing that Harry overlooked that has to do with the mechanics of this thing. We are depending upon the employers to sell our bonds for us, take care of all the accounting and recording, and to a considerable extent the issuing of bonds.

MR. WHITE: You won't need that.

MR. GRAVES: I was trying to say that if you give them the other job to do, of collecting your compulsory savings, the two just can't exist together.

MR. WHITE: I quite agree with you. I don't think you can look for pay-roll deduction plans. I think pay-roll deductions should be out.

MR. GRAVES: And that is what I meant when I said that this would kill your voluntary plan largely because your pay roll allotment thing is gone.

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MR. WHITE: Well wait, I don't regard the two as identical. The pay-roll allotment plan is gone. I still think there is a very broad area for a voluntary appeal for savings.

H.M.JR: If you have a pay roll allotment plan - you are not going to have the manufacturer doing two jobs.

MR. WHITE: Well, the manufacturer doesn't build any morale.

MR. GRAVES: I disagree with that.

H.M.JR: Now let me just tell you something. I wanted to have everybody hear it. Nobody asked me what Mr. Green had to say. Is anybody interested in what he has to say?

MR. GASTON: Yes, I would be interested in what he has to say about the sales tax as one thing. They quote him as favoring it.

H.M.JR: Well, Mr. Green is opposed to any ceiling on wages. He is opposed to all ceilings. (Laughter)

MR. WHITE: On prices too?

MR. BELL: On prices?

H.M.JR: Yes, that is what he says. He says, "We can't be for a ceiling on prices without being for a ceiling on wages."

MR. WHITE: He is a patriot.

H.M.JR: Now, he is against the sales tax. Then I got to him on this question of forced savings and the voluntary plan, and I said, "Now look, Mr. Green, supposing the President of the United States would give me a letter and ask me to go out and ask the unions and the manufacturers to voluntarily deduct ten percent of their pay roll each week. Would you do it?" "Yes," he said,

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"that is reasonable, and that is the way to do it." He said he would like to do it, and he said, "The unions are very proud and very happy in what they are doing." He said, "It means a lot to them. They are very happy and very proud," and he didn't ask for a letter from the President. He said, "You write me a letter, and we will do it." But I said, "Well, I wouldn't do it unless the President put it in writing to me publicly, that that is what he wants."

MR. GASTON: I wonder if anybody has considered this phase of it?

H.M.JR: But I thought you might be interested in what he had to say, but the other thing he said - I thought it was the most amazing statement - I have heard a lot of statements all week. (Laughter)

MR. WHITE: At least he is consistent, Mr. Secretary.

MR. BELL: You have heard a lot of statements about the attitude of labor.

MR. SULLIVAN: Give him credit; he is consistent.

H.M.JR: But that takes the cake. Yes. And then at the end--

MR. WHITE: He probably wanted to stop the war.

H.M.JR: I said, "How are you about inflation, do you think we should hold our prices?" He said, "Oh, by God, yes, we should hold our prices."

MR. GASTON: He is just like a farmer.

H.M.JR: So it is a great world we live in.

MR. GASTON: I wonder if anybody has considered this phase of this thing?

H.M.JR: Isn't that amazing? At least he was honest.

MR. BELL: How about the other side, are you going to see them too?

MR. FOLEY: Murray?

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H.M.JR: He is out of town.

MR. BELL: That comes right from the horse's mouth.

H.M.JR: Nobody speaking for labor would be as honest as that.

MR. WHITE: As honest?

H.M.JR: As Green was with me.

MR. WHITE: I would say he was foolish.

H.M.JR: Well, he was honest.

MR. WHITE: If he was honest, he was foolish.

MR. PAUL: They are the same thing frequently.

MR. HAAS: I think that is the trouble with them.

H.M.JR: Now look, I got around as far as Paul, and everybody thought this idea from one to fifteen was swell, and then these fellows know, Graves knows, Sullivan knows. Haas?

MR. HAAS: I viewed it as a compromise situation. I thought you - I mean, if Henderson goes ahead extensively on rationing and the thing is kept in the lower brackets, I think you can run the two things; but without rationing, the situation is lost.

H.M.JR: Just as much as Henderson let us see this morning. Suppose he goes just that far, and no further?

MR. HAAS: That isn't enough.

H.M.JR: Yes, but what about my one and fifteen? Going as far as Henderson did this morning.

MR. HAAS: I don't think - of course, Henderson has got the job of holding prices, and I don't think he can hold them that way.

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H.M.JR: But, I have got to say something to the President tomorrow morning.

MR. HAAS: On that thing I felt it was, out of a difficult situation, probably as good as you can make out of it. I took that position. If you feel - you said you couldn't get anywhere with this over-all rationing at all.

H.M.JR: George, you are not giving me an answer. I can do one of three things tomorrow morning. I can go to the President and say, "Go ahead with forced savings, go ahead with - give me a chance to continue until July with my volunteer plan and see what we can do the way I said in my letter," or I can say, "Let us go ahead and see what we can do until July, but it is all right with us if you ask Congress to give you the authority to put in forced savings if and when you think it is necessary."

MR. HAAS: Oh, well, I think I would put in another alternative there where you can achieve success. You can go ahead on your volunteer plan, providing the rationing is stepped up very rapidly; and you could explain to the President that that is the only way you can stop this situation in any case, that the forced saving as now visualized will not do it, because all the leakages - there will be liquidation of assets which people have, and certain things.

H.M.JR: Well, Herbert?

MR. GASTON: Well, I think that one to fifteen is no good on the lower end. I think if you start, you have got to start fairly heavily, and the minimum is five percent.

H.M.JR: Well, if you had to say - if you were going over tomorrow and had to tell the President, where would you stand on this whole thing?

MR. GASTON: Give us another chance on the voluntary savings, because there are possibilities in it, and I

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don't think they fully realize the difficulty on the other side. There is another one that hasn't been mentioned. I think it is going to have some effect both on national morale and on world morale, the idea that we are forced to go to forced saving at this stage of our participation in the war, that we can't get the money, we can't finance ourselves, we have got to go to forced loans to do it.

H.M.JR: That is good. Harry?

MR. WHITE: I should be inclined to tell him the third point you made, that you would like to go ahead with the voluntary savings, but that he ought to ask in his message for authority to impose forced savings, or that he will ask for forced saving. I don't think he ought to ask the authority to do it. That is, if it doesn't work out. That prepares you both ways. You are asking for a chance to continue, and you are also recognizing the possibility that you may not be successful, and you are preparing the groundwork, or he is, to say that he may come to them soon and ask for a program of forced saving. He is protecting himself either way. If it is enough, fine; and if it isn't, he will come before them and ask for legislation on forced saving. I don't think it is necessary for him to say anything more than that.

H.M.JR: Dan, do you want to change?

MR. BELL: Well, I would say that if you can get the voluntary savings, that is it; but I didn't think you could get it in this picture at this time, because they were going to insist on an all out program, and the best you could get was what you suggested a while ago, a sort of a compromise. But, I would be in favor of the voluntary plan if you could get that. If not, I would take the compromise from one to fifteen. Put it in whenever the President feels that it should be put in.

MR. FOLEY: I think, Mr. Secretary, you are going to come to forced savings sooner or later, as I said

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before, and I certainly think you ought to at least tell the President he should recommend forced savings legislation in this message. You can go ahead with the volunteer in the meantime until we have to impose forced savings, but I think we ought to be realistic and recognize that that is what we are coming to.

H.M.JR: Roy?

MR. BLOUGH: I feel much as I did before, that if you could do just what you wanted to do, ask for the voluntary, but have the country put on notice that a great deal of purchasing power must be taken out, either through taxes or voluntary or compulsory, that the next best thing is to either ask directly for legislation now or to put Congress on notice that you will ask for it in case the voluntary saving program is not adequate.

H.M.JR: Randolph, have you got any second thoughts?

MR. PAUL: My only second thought is not so very different. I think your discretionary idea is a good one. I don't speak about precise percentages, but I think we ought to settle forced saving. I don't think we are going to get anywhere with the voluntary. I don't mind leaving the door open to the voluntary effort, but I think we ought to accept the forced saving idea and trade as much out of it as we can, and perhaps get rid of the sales tax and lowering the exemptions. That is the way it looks to me, that we might be able to stifle some of our opposition if we agree to the forced saving.

H.M.JR: O.K., gents.

MR. BELL: One thing, Henderson and his group, of course, will be in a position to almost kill our voluntary plan through inaction on the rationing.

MR. GASTON: Well, that means that they just abandon their function, and they can't - you can't assume they will do that.