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TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Friday, April 10, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 15, 1942, and will mature July 15, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Monday, April 13, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 15, 1942, provided, however, any qualified depository will be permitted to make payment by credit for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

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

Treasury Department Circular No. 413, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Friday, April 10, 1942.

Press Service  
No. 31-14

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 1/2 percent Treasury Certificates of Indebtedness of Series A-1942.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$3,762,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$66,000,000, were allotted in full. Subscriptions in amounts over \$25,000 were allotted 48 percent, on a straight percentage basis, but not less than \$25,000 on any one subscription, with adjustments, where necessary, to the \$1,000 denomination.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

-c00-

April 10, 1942

MEMORANDUM FOR THE FILES:

On Tuesday, April 7, the Under Secretary and I discussed with the Secretary the question of moving Treasury agencies out of Washington to aid in the space and housing situations. We advised the Secretary that we had informal advice that the Bureau of the Budget perhaps might issue an order for certain Treasury agencies to be transferred from Washington and it was felt that we should be giving the subject further consideration in the thought that if we make our own moves we might forestall direct action by the Bureau of the Budget.

The Secretary approved this suggestion and Mr. Bell stated that he would favor moving the Savings Bond Unit of the Division of Loans and Currency out of Washington, this unit eventually to employ from 1,500 to 2,000 people. The Secretary suggested that we look into the space and housing situations in Utica, Syracuse and Rochester, mentioning that perhaps the old Franklin automobile factory in Syracuse might be available for this unit. I advised the Secretary that I would send one of our space organization men to those cities as a preliminary to this move to see if adequate facilities for the purpose could be obtained in any of those cities.

The Secretary also indicated that the Foreign Funds Control Unit might be moved to New York, the Mint Bureau to Philadelphia, and the Narcotics Bureau to some other out-of-town location.

*Handwritten signature*

4

Letter re-written and sent to Secretary  
while he was at meeting in Cabinet Room  
April 10, beginning at 10 a.m.

April 10, 1942.

My dear Mr. President:

A plan of compulsory savings has recently been proposed as a necessary feature of any comprehensive program to control the cost of living. As you know, from my letter of April 5, we in the Treasury "do not believe that fiscal measures alone are adequate to meet the situation". The establishment of price ceilings, further restrictions on consumer credit, an expanded system of rationing, as well as the enactment of pending tax legislation, including additional social security levies, are all parts of a comprehensive and integrated program. There is no reason, that I can see, why an intensified program for the promotion of voluntary war savings should not as logically, and I believe, more logically, find a place in such a program as would a system of compulsory savings. Indeed, the adoption of a comprehensive plan of this kind by keeping prices down and thus making voluntary savings easier would make compulsory savings more than ever unnecessary.

The plan under consideration calls for the forced saving of 5 percent of income with exemptions of \$500 in the case of single persons and \$1000 in the case of married persons. It is estimated that this would yield in the neighborhood of \$3,000,000,000 a year. As you know, the overall sale of savings bonds since the 1st of May, 1941, has averaged over \$440,000,000 a month. Although it is impossible to state the exact amount, a conservative estimate indicates that at least one-half of this total represents savings from current income which would otherwise be spent and is, therefore, anti-inflationary in its effect. At this rate, the War Savings Program, assuming no increase, would reduce by nearly \$3,000,000,000 a year the total volume of excess spendable income which is now exerting upward pressure on the price structure.

It seems to be accused by those who sponsor compulsory savings that such a plan can be administered without interfering with voluntary savings. If this were true, I would find it less objectionable. Unfortunately, I am convinced, and it is the unanimous opinion of those who have immediate responsibility for the War Savings Program, that the two plans cannot be carried on simultaneously.

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There are two main reasons why this is true, one, administrative, and the other, psychological. First, as to the administrative problem. A compulsory savings plan would involve the withholding of a certain percentage (5 percent under the plan proposed) of the wages and salaries of employees. The major responsibility, therefore, for administering such a plan would fall upon the thousands of employers who have already installed voluntary payroll allotment plans. These employers have patriotically cooperated with the Treasury in the installation of these plans and have almost without exception expressed their willingness to redouble their efforts to increase both total participation and the rate of individual saving. They, however, will tend inevitably to drop the voluntary plan if they are required to assume the burden of administering a compulsory plan, for we cannot realistically expect them to administer the two plans concurrently.

I need not dwell upon the administrative difficulties involved in applying a system of compulsory savings to the millions of self-employed business men, professional people and farmers. We believe that these people can and will be reached effectively through a voluntary program without the same measure of administrative difficulty.

The administrative problem is only one factor operating to make voluntary and compulsory savings plans incompatible. There is an intangible psychological problem of equal weight. It is generally agreed that the adoption of, or even the announcement of the intention to adopt, a compulsory savings plan, would result in a sharp decline in the rate of voluntary savings. Wage earners, especially, to whom we expect to sell the bulk of our War Savings Bonds, cannot be expected to continue their voluntary bond purchases if they are forced to purchase a certain amount by law. Moreover, the adoption of compulsory savings would have a devastating effect upon the morale of the War Savings Organization. Throughout the United States in nearly every community, more than 6,000 War Savings Committees have now been organized. Upwards of 100,000 citizens, representing leaders in every walk of life, and of every political persuasion, are voluntarily cooperating in the promotion of the War Savings Program. If we were to adopt a system of compulsory savings at this time, it would amount to a vote of "no confidence" in these good people, and I am sure that the patriotic zeal with which they are now carrying on would be seriously undermined and the whole sales effort greatly impaired.

These thousands of voluntary committees have been clamoring for definite quotas at which to aim and for a more systematic and intensive promotional drive. We have been reluctant to adopt quotas

and to engage in high pressure promotion mainly because we were convinced that up to very recent times such methods would weaken rather than strengthen public morale. We believe that the public mood has now changed and that the American people wait only to be told what it is necessary to do and they will do it of their own free will. We propose, therefore, to give them a definite plan and a definite goal.

Before the recent proposals for forced savings were made the War Savings Staff had laid plans for an intensified and accelerated program to increase the volume of anti-inflation savings from approximately \$5,000,000,000 a year to over \$9,000,000,000 a year. These plans involve the adoption of quotas for every state and county and for an increase in the rate of bond purchases under the payroll savings plan to equal at least 10 percent of the gross payroll of every important business and industry in the country. The setting of these definite quotas will place our promotional campaign for voluntary savings upon a war basis.

The most effective single method for promoting the systematic purchase of War Savings Bonds is through the payroll allotment plan. Already 50,000 firms in the United States, employing a total of twenty million people, have installed such plans for their employees. At the present time about 45 percent of all these employees are actively participating in payroll savings plans and their average monthly allotment for the purchase of savings bonds represents about 4.8 percent of their pay.

We expect that through the application of the intensified program mentioned above, we can more than double this record. When this is done, the result will be a volume of savings equivalent to 10 percent of the total gross payroll. Applying substantially the same standard to other groups of income receivers will result in the sale of more than \$9,000,000,000 a year of Series E War Savings Bonds. If we include the estimated sale of F and G Bonds, the total will be in the neighborhood of \$11,000,000,000 a year or an average of nearly \$1,000,000,000 a month. This amount I believe to be definitely within reach if a comprehensive program as outlined above is launched.

It is apparent from all this that we are already receiving in anti-inflation savings an amount at least equal to that which it is hoped can be raised under a compulsory savings plan at the rate of 5 percent on income. Moreover, under the plans already completed, as I have said, we believe that this amount can be more than doubled. In my judgment, it would be tragic mistake to sacrifice the voluntary

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savings program for a compulsory system which, unless the rates were increased far beyond those now proposed, would yield less than one-third as much.

Indeed, in view of what is now being done, and more especially in view of what I know can be done with your help to increase the volume of voluntary savings, it would be a great mistake to adopt any policy which would jeopardize the success of that program now.

Sincerely,

Secretary of the Treasury

The President

The White House



THE SECRETARY OF THE TREASURY  
WASHINGTON

9  
draft of  
letter  
of 4/10

April 10, 1942.

My dear Mr. President:

The current proposal to adopt a plan of forced savings as a supplement to our present voluntary savings program raises problems of policy and administration which I believe have not been adequately considered.

The plan under consideration calls for the forced saving of 5 percent of income with exemptions of \$500 in the case of single persons and \$1000 in the case of married persons. It is estimated that this would yield in the neighborhood of \$3,000,000,000 a year. As you know, the overall sale of savings bonds since the 1st of January has averaged in the neighborhood of \$700,000,000 a month. Approximately one-half of this total may be said to represent savings from current income which would otherwise be spent and is, therefore, anti-inflationary in its effect. At this rate, the War Savings Program, assuming no increase, would reduce by approximately \$4,000,000,000 a year the total volume of excess spendable income which is now exerting upward pressure on the price structure.

Before the recent proposals for forced savings were made the War Savings Staff had laid plans for an intensified and accelerated program to increase the volume of anti-inflation savings from approximately \$4,000,000,000 a year to over \$10,000,000,000 a year. These plans involve the adoption of quotas for every state and county and for an increase in the rate of bond purchases under the payroll savings plan to equal at least 10 percent of the gross payroll of every important business and industry in the country. The setting of these definite quotas will place our promotional campaign for voluntary savings upon a war basis.

The most effective single method for promoting the systematic purchase of War Savings Bonds is through the payroll allotment plan. Already 50,000 firms in the United States, employing a total of twenty million people, have installed such plans for their employees. At the present time about 45 percent of all these employees are actively participating in payroll savings plans and their average monthly allotment for the purchase of savings bonds represents about 4.8 percent of their pay.

DEFENSE

BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS

-2-

We expect that through the application of the intensified program mentioned above, we can more than double the percentage of employees participating in payroll savings plans, and also more than double their average monthly allotment. When this is done, the result will be a volume of savings equivalent to 10 percent of the total gross payroll. Applying substantially the same standard to other groups of income receivers will result in the sale of more than \$10,000,000,000 a year of Series E War Savings Bonds. If we include the estimated sale of F and G Bonds, the total will be in the neighborhood of \$12,000,000,000 a year or an average of a \$1,000,000,000 a month. This amount I believe to be definitely within our reach, *only if the new program is approved by the President.*

It is apparent from all this that we are already receiving in anti-inflation savings an amount at least equal to that which it is hoped can be raised under a compulsory savings plan at the rate of 5 percent on income. Moreover, under the plans already completed, as I have said, we believe that this amount can be increased by two or three times. In my judgment, it would be a tragic mistake to sacrifice the voluntary savings program for a compulsory system which, unless the rates were increased far beyond those now proposed, would yield less than one-third as much.

It seems to be assumed by those who sponsor compulsory savings that such a plan can be administered without interfering with voluntary savings. If this were true, I would find it less objectionable. Unfortunately, I am convinced, and it is the unanimous opinion of those who have immediate responsibility for the War Savings Program, that the two plans cannot be carried on simultaneously.

There are two main reasons why this is true, one administrative, and the other which, for want of a better term, may be described as psychological. First, as to the administrative problem. A compulsory savings plan would involve the withholding of a certain percentage (5 percent under the plan proposed) of the wages and salaries of employees. The major responsibility, therefore, for administering such a plan would fall upon the thousands of employers who have already installed voluntary payroll savings plans. These employers have patriotically cooperated with the Treasury in the installation of these plans and have almost without exception expressed their willingness to redouble their efforts to increase both total participation and the rate of individual saving. They will, however, tend to drop the voluntary plan if they are required to assume the burden involved in administering a compulsory plan, for we cannot realistically expect them to administer the two plans concurrently.

I need not dwell upon the administrative difficulties involved in applying a system of compulsory savings to the millions of self-employed business man, professional people and farmers. We believe

that these people can and will be reached effectively through a voluntary program without the same measure of administrative difficulty.

But the administrative problem is only one factor operating to make voluntary and compulsory savings plans incompatible. There is an intangible psychological problem of equal weight. It is generally agreed that the adoption of, or even the announcement of the intention to adopt, a compulsory savings plan, would result in a sharp decline in the rate of voluntary savings. Wage earners, especially, to whom we expect to sell the bulk of our War Savings Bonds, cannot be expected to continue their voluntary bond purchases if they are forced to purchase a certain amount by law. Moreover, the adoption of compulsory savings would have a devastating effect upon the morale of the War Savings Organization. Throughout the United States in nearly every community, War Savings Committees have now been organized. Upwards of 100,000 citizens, representing leaders in every walk of life, and of every political persuasion, are voluntarily cooperating in the promotion of the War Savings Program. If we were to adopt a system of compulsory savings at this time, it would amount to a vote of "no confidence" in these good people, and I am sure that the patriotic zeal with which they are now carrying on would be seriously undermined and the whole sales effort greatly impaired.

These thousands of voluntary committees have been clamoring for definite quotas at which to aim, and plans for a more systematic and intensive promotional drive. We have been reluctant to adopt quotas and to engage in high pressure promotion mainly because we were convinced that up to very recent times such methods would weaken rather than strengthen public morale. We believe that the public mood has now changed and that the American people await only to be told what to do and they will do it of their own free will. We propose, therefore, to give them a definite plan and a definite goal.

To adopt compulsory savings now would be an admission before all the world that the greatest democratic nation had been compelled to resort to forced loans in order to finance the war. It would give to the Axis propagandists another peg on which to hang their campaign of slander and abuse by which they hope to divide and conquer.

It has been suggested that a plan of compulsory savings is a necessary feature of any comprehensive program to control the cost of living. As you know, from my letter of April 3, we in the Treasury do not believe that fiscal measures alone are adequate to meet the situation. The establishment of price ceilings, further restrictions on consumer credit, and an expanded program of rationing, as well as the enactment of the pending tax program, are all parts of a comprehensive and integrated program. There is no reason, that I can see, why an intensified program for the promotion of voluntary war savings should not as logically, and I believe, more logically, find a place in such a program as would a system of compulsory savings. Indeed, in view of what

is now being done, and more especially in view of what I know can be done to increase the volume of voluntary savings, it would be a great mistake to adopt any policy which would jeopardize the success of that program now.

Sincerely,

Secretary of the Treasury

The Honorable  
The President  
of the United States  
Washington, D. C.

April 10, 1942

At the meeting with Judge Rosenman, I gave him a copy of White and Gilbert's memo (4/10) I made my plea to trust Labor not to increase if the cost of living stays put; put Labor on their honor and I feel that they will respond. Urged passing of present tax bill. Point with pride to the excess profits -- it absorbs. Sam Rosenman wants a page on this. (see 4/11)

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Boston

APRIL 10, 1942

TAKEN BY THE SECRETARY TO THE MEETING  
WITH JUDGE ROSENMAN IN THE CABINET ROOM WHICH OVER-  
LAPPED INTO CABINET MEETING IN  
THE AFTERNOON.

TREASURY DEPARTMENT  
WashingtonFOR RELEASE, MORNING NEWSPAPERS,  
Wednesday, September 10, 1941.Press Service  
No. 27-37

(The following address by SECRETARY MORGENTHAU before the Advertising Club of Boston is scheduled to be broadcast at 8:00 p.m. Eastern Standard Time, Tuesday, September 9, 1941, and is for release upon delivery at that time.)

Only twenty miles from here, at Lexington and Concord, the men of New England first proved that Americans could defend their homes and their freedom. Today, the people of these States are proving that they are still New Englanders. In army camps and naval stations, in hundreds of factories and shipyards from Connecticut to Maine, the men and women of New England are responding magnificently to their country's needs. I am glad to be here tonight to pay my tribute to the great work that New England is doing, like all other sections of the country, to arm America.

I am glad also that my host tonight is the Advertising Club of Boston, for the advertising profession is a mighty force in creating public understanding. We cannot make ourselves the arsenal of democracy and the defender of freedom unless our people understand the tremendous issues involved in this Battle for the World. In the same way, we at the

Treasury shall find it more difficult to accomplish our task of financing the defense program unless the public sees clearly the need for greater sacrifice and for greater effort.

In particular, I think that clear understanding is needed if we are to avoid the economic evils that might otherwise spring from a defense program as great as ours, a program that is making such enormous demands upon our productive resources. The worst of those economic evils has been constantly uppermost in my mind as Secretary of the Treasury. That is the evil of inflation and that is the subject which I should like to discuss with you tonight.

We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are facing it now and we must deal with it at once.

If we are selfish or shortsighted in facing this issue, the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

That task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress, everyone of us here in this room and everyone who may be listening to me tonight.

The word "inflation" is cold and lifeless, so cold that even you advertising men here tonight might have difficulty in making it real, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time a price inflation struck us 25 years ago. The effects of that inflation, however, lasted for many years and brought untold heartbreak and misery in their train.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences were so serious for every American that there must be many housewives even today who can remember them. By 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents and a pound of pork chops cost 50 cents. By that year prices had skyrocketed to twice the level of five years earlier. The money the housewife paid for one loaf of bread in 1914 bought only half a loaf in 1920. The money she paid for a pound of bacon in 1914 bought only half a pound in 1920. The money she paid for a yard of cotton cloth was

enough to buy only 1/3 of a yard in 1920. The consumer found that food, fuel, shelter and clothing which cost a dollar in April, 1916, had risen to almost two dollars by 1920. The family with no increase in income found its purchasing power cut in half.

We have now, as we had then in 1916, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities like wheat, hogs, cotton and lumber. It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter and clothing which now cost a dollar will once more cost almost twice as much before the process has ended.

The rise in prices is by no means confined to foodstuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 per cent, and if it goes along the 1916 pattern, we are only at the beginning of the story.

Not only is the cost of building homes rising, but higher rentals are also on the way for the millions who do not own their homes. In scores of areas where industrial expansion has first taken hold, rents have already risen 10, 20, 30 per cent, and even higher.

I have brought with me tonight a pictorial chart which I wish the radio audience could see because it shows so plainly the road we traveled once, and the road which we must not travel again. The chart shows how the buying power of your dollar shrank from 1914 to 1920, how your dollar bought less food, less clothing, less shelter, less heat and light because prices were allowed to run away. It shows how your dollar is already buying less in 1941 than in 1939, and it leaves a big question mark for the space showing what your dollar may buy in 1942. The answer to that question is in our keeping as Americans, whether we are officials of the Government or private citizens. And I have written on the chart, alongside the question mark, the words: "Answer depends on us". We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense and determination to avoid what we went through twenty-five years ago.

Let it not be said of us, as David Lloyd George said of his people in 1915, that we were "too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing."

There is no excuse for us to be too late in meeting this threat of inflation that faces us. We now know, or ought to know, what is going on; that is perhaps the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us. We now know that the time to do something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now.

There is no need for me to remind this audience in detail of the reasons why prices have already risen. The reasons are plain for everyone to see. Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires also by increasing the flow of supplies of goods available to the consumer.

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore,

to point out, first, what we have done, and then, what we need to do, in order to stop prices from rising further.

In the first place, Congress is on the point of passing a huge tax bill designed to raise almost four billion dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the defense effort.

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income.

Through a new form of note - the tax anticipation note - it is seeking to increase the effectiveness of the income tax as a check on current purchasing power, and I am happy to report to you that more than a billion dollars' worth of these notes were sold in the month of August.

The Treasury has also begun a program of selling Defense Savings Bonds and Stamps to people of moderate and low incomes. The people have responded to a tune of a billion and a quarter dollars in four months, without coercion of any kind; and in making that response possible the advertising profession has been of truly invaluable help.

The President has recently issued an order authorizing the Board of Governors of the Federal Reserve System to control consumers installment credit.

The Congress is considering, and I hope will pass without undue delay, a bill to limit price rises and to supplement the efforts of the Office of Price Administration to limit those rises by voluntary cooperation.

All these are useful steps to a necessary end, but they are not enough.

We shall have to tax ourselves much more heavily next year than this year, great and far-reaching as the present tax bill will be.

We shall have to invest much more widely and systematically in Defense Savings Bonds and Stamps. In particular, the rising payrolls of the past year have been a clear call to the wage earners of America to set aside a portion of their earnings each week for their own good and their country's good.

We may have to extend general controls over bank credit and create controls over selected capital expenditures.

I hope that we may extend the social security program so as to increase the flow of funds to the Treasury from current income during the emergency and increase the outflow of funds when needed in the post defense period. In addition, I have already suggested the creation of what I have called a "separation wage" -- that is, an entirely new form of contribution out of which a worker may draw a regular wage for a stated period in case he loses his job. These measures would be good and desirable in themselves, but they are especially necessary at this time, for they should help us to decrease certain forms of purchasing now and increase them in the future when they may be needed.

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes. The President pointed the way a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction. By this action he demonstrated that there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day.

The country should congratulate itself on the President's veto of this measure, and also upon the Senate's action only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in nondefense activities. I have several times suggested the creation of such a committee, and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the decks for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem <sup>of</sup> reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post war world.

But we should also attack the problem from the opposite direction. We must make every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the defense program. Above all, we must make full use of those supplies that are available, not only in defense production, but in the provision of civilian goods which do not compete with defense output.

This is a time when we must flatten the peaks and fill up the valleys in our economic picture. If we reduce undesirable purchasing now and keep prices down now, we shall be helping to provide for the day when these vast defense expenditures will end and when our defense workers will take up the work of peace again.

The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage.

I wonder if the housewife knows, when she pays fifteen per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 498 million bushels of several years' crops are available in our neighbor democracy of Canada. It is true that only three months ago a rigid quota was applied to the importation of wheat from Canada with the ultimate objective of keeping up the price of wheat in this country. But it is also true that only the other day the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country. It seems to me desirable and necessary that we

now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds or controls seven million bales of cotton in reserves, and cotton prices have risen from 9½ cents a pound on August 1, 1939 to over seventeen cents a pound at the present time. In spite of this rise of not far from 100 per cent in two years, Congress recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill because this measure would have aggravated the danger of inflation and might have frustrated our efforts to fight it.

We ought not to withhold cotton surpluses, or any surpluses, from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet the reserve stocks of butter,

cheese, beef and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years.

This has been historically a land of milk and honey. There is still plenty of milk and honey but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public we would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921; they should not be made to suffer again.

It is sheer folly in the same way for labor leaders to seek new increases in wages every few months -- new increases which in turn produce higher manufacturing costs, higher prices, and a higher cost of living.

It is short-sighted for a landlord to charge all that the traffic will bear in defense centres where housing space is at a premium.

It is poor business, in the long run, for any businessman to seek exorbitant profits in this period of defense spending.

It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeking to charge unreasonable interest rates.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely to rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt which he cannot repay. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed.

No group in a community profits from inflation in the long run except the Three Horsemen - the Speculator, the Profiteer and the Hoarder.

These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our defense program and make the arming of our country steadily more difficult. They should be self-evident now in the light of the experience that we suffered only 25 years ago.

We Americans have more than 150 years of self-government behind us. We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you tonight is that we should learn from bitter experience. My hope and my belief is that no group among us - whether farmers, working men or business men - shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked.

The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now. I can give you only this pledge - that this Administration will do everything humanly possible to prevent inflation. But in this fight the Administration must have the firm support and the clear understanding of 130 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.

# COST OF LIVING

## Changes in Buying Power of Your Dollar World War and Now

### Total Cost of Living

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base



**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Food

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base

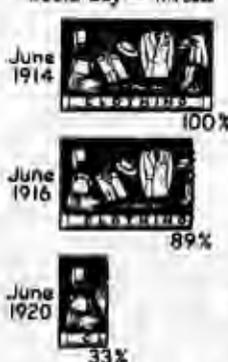


**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Clothing

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base



**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Shelter

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base



**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Heat and Light

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base



**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



Note: All other Items of Cost of Living included in total

Cleveland

TREASURY DEPARTMENT  
Washington

(The following address by SECRETARY MORGENTHAU before the Forum of the City Club of Cleveland is scheduled to be delivered at the Statler Hotel in Cleveland, Ohio, at 1 P.M., Eastern Standard Time, Saturday, January 24, 1942, and is for release upon delivery at that time.)

I am very happy to be with you in Cleveland this afternoon, because this great city, far from any battle line, is one of the places where the outcome of this war and the future of this country is being decided.

Here in the Cleveland area you have a great concentration of the forges and the assembly lines which are America's real front lines at this moment. Day and night your industrial wheels are turning, your hammers pounding, your fires burning, your workers toiling, to win the war. You in Cleveland are showing what our free people can do when they are aroused, and I take my hat off to you.

You and all the others of our 130 million people have begun to speak in the only language that tyrants understand -- the language of tanks and planes, guns and ships, and men with the courage and conviction to carry that message all the way to Tokyo and Berlin.

What has happened, I wonder, to those who used to say that the pioneer spirit was dead? The pioneers who opened Ohio did not let danger or hardship daunt them; they regarded every danger as a challenge, every hardship an adventure. You in Cleveland have not lost that spirit. It is alive and strong, here in your State and in every State.

Already we have answered the shock of Pearl Harbor by dedicating ourselves to the greatest job that ever confronted our country. We have shown that we can take marching orders

by accepting and applauding the great task the President set for us the other day, the task of making such an overwhelming number of weapons that the Nazis and the Japanese will be utterly unable to match us.

If any further proof of our determination were needed, let any of our enemies look at the magnificent response to the sale of Defense Bonds and Stamps in the past few weeks. The total has now passed three billion dollars, and the response in January has set new records in every direction.

Whatever test may be given to us, we are going to surmount it. Whatever hardship may be in store for us, we are ready to take it and give it back to our enemies a hundred-fold until victory is won. That was the pioneer way in the old Ohio days; that is the American way today. That is the way we shall keep faith with the pioneers and with the promise of a better world which they foresaw.

We have only just begun to fight; we have only begun to learn what this war effort will involve. In the near future, for example, we shall face a new challenge of a kind which I think too few of us have planned for or even considered. That is the challenge of paying for the war. It will come first on March 16th, when fifteen million Americans will be called upon to pay income taxes for the waging and the winning of this war. It will come later in the payment of the vastly increased war taxes which we shall have to impose upon ourselves in the new financial year. I am confident that we shall meet those new requirements, and any requirements, without flinching. We know, as I have said before, that it's a million times cheaper to win a war than to lose one.

This is not the time for me to discuss the new tax program. The President has said that we must have nine billion dollars in new revenue. We have no more right to fall short of that goal than we would have to fall short of the President's announced goal of sixty thousand planes and forty-five thousand tanks in 1942.

It will produce hardship; of course it will. Since when have the American people been daunted by hardship? It is part of our American tradition to face the facts, however harsh the facts may be. You know, without my saying so, that we cannot divert half of our national income to war production without "dislocating" our economy from its customary routine. You know, without my saying so, that we cannot spend forty billion dollars in this year 1942 without "disturbing" ordinary business and ordinary living. You know, too, that we cannot fight and win a life-and-death struggle, a war that encircles the whole planet, without discarding old habits, old fears, old notions of business-as-usual.

We are, however, entitled to lay down just this one premise: that whatever hardship may be in store, we shall face it together; that it shall be distributed fairly and borne by all in their fair proportion, in accordance with their ability to carry it. And that brings me to the chief subject I should like to discuss this afternoon.

This Administration has tried hard for years, and with a good deal of success, to remove tax injustices. Such injustices are of two kinds: those which permitted some to escape their fair share of tax payments, and those which bore down too harshly upon certain taxpayers. For eight years at the Treasury I have fought against the remaining vestiges of unfairness in the statute books, and in almost every one of those eight years Congress has closed some loopholes and enacted some remedial provisions.

In the Revenue Act of 1937 there was a whole series of reforms which made it impossible, among other things, for anyone to escape taxation by incorporating his yacht or country estate, or by creating a personal holding company. These devices have now been outlawed. Since then the struggle to perfect the statutes has gone on without stopping.

Now that we are at war, the fight becomes more necessary than ever. The President has spoken again and again of the need of making our taxes not only effective but equitable as well. Only the other day, in his Budget Message, he repeated that "a fair distribution of the war burden is necessary for national unity."

War knows no avoidance. As the President said, "When our enemies challenged our country to stand up and fight they challenged each and every one of us." Every one of us has a direct stake in the outcome of this war, and each of us must, therefore, pay his fair share of the cost.

Yet I am sorry to say that the present tax structure still falls short of the requirements of equity and the insistent needs of a nation at war. In spite of all our efforts of recent years our tax laws are still weakened by loopholes; it is still possible for a few thousand individuals to escape their fair share of the burden and to pass their share onto the shoulders of the rest of us. I asked our Treasury tax experts the other day to compute the total amount of revenue that had to be passed onto the shoulders of other taxpayers because of the existence of loopholes in the law. The answer was almost a billion dollars, about one-eighth of the entire receipts from income tax in the fiscal year that ends in June. How can the war efforts of our people reach their peak level until such a situation has been remedied? Can we be sure of getting the maximum response from everyone until everyone feels that the tax laws are as fair as it is humanly possible to make them?

In wartime, when we are drafting young men to fight and risk their lives for their country, any special privilege for a few becomes inexcusable.

So that you may know exactly what I have in mind, I should like to turn now to four specific examples of tax loopholes -- and I could name a great many more than four -- which have been allowed to remain on the statute books at the expense of the majority of our taxpayers.

### Tax-Exempt Securities

The first is the continued existence of tax-exempt securities. At present, as you know, the interest from State and municipal bonds is exempt from Federal income tax. This provision gives wealthy taxpayers a possible refuge, not from some income tax, but from all income taxes. No matter how much money may be needed for the war, no matter how high the tax rates may be for others, a taxpayer is not obliged to contribute anything in this hour of his country's peril, if only he can afford to lay his hands upon a sufficient amount of tax-exempt securities.

The Federal Government last year took a first step toward remedying this situation by stopping the issuance of tax-exempt Federal securities. Now that we are at war, now that the revenue needs of the Government have soared beyond all previous conceptions, it is high time, in my opinion, to tax the income of State and municipal securities -- not only the income from future issues, but also the income from those issues now outstanding.

The existence of this loophole costs the Treasury, at present tax rates, about \$200,000,000 a year.

### Community Property

A second source of tax discrimination exists in the nine States having what is called the community property system. In a community-property State the law assumes that the income of the husband belongs equally to the husband and wife. Yet since the husband has full management and control of the whole income, he is, in practical effect, in no different position from a husband in a non-community-property State. Both of them have the management and control of the income and in both cases the income is devoted to the family purposes.

In a community-property State a husband who earns a \$10,000 salary is allowed to report only \$5,000 of that salary as his income and his wife may report the other \$5,000 as hers. The two of them together will pay a total tax of \$945. In the thirty-nine other States, however, the husband who earns a \$10,000 salary must report that salary as his income and must pay a tax of \$1,305 on it. Thus the married citizens of nine out of forty-eight States are able to escape their fair share of the load at the expense of the married citizens in the rest of the country.

The existence of this community-property tax privilege costs the Treasury, on the basis of existing rates, about \$55,000,000 a year.

#### Separate Returns for Husband and Wife

The removal of this community-property privilege alone would not, however, reach a still more widespread form of avoidance. I refer to the method of separating a husband's and wife's investment income -- as distinguished from the income they get from salary and wages -- in such a manner that two families having virtually the same economic position pay vastly different taxes. Under the present law, if a husband and wife both have investment income, each pays a tax on the separate income. Because the income-tax rates are progressive -- that is, because the higher the income the greater is the rate of tax -- a family in which both husband and wife have investment income pays less tax, in many instances, than a family having the same amount of income all of which is received either by the husband or the wife.

Let us take the case of a married taxpayer in the upper brackets having a \$100,000 income from securities. Under the present law he would pay a tax of \$52,748. But if he gives half of those securities to his wife, he will pay a tax of \$20,926 and his wife will pay a tax of the same amount. This couple, at the cost of a moderate gift tax, has thus secured a perpetual reduction of \$10,896 in its income-tax liability under present rates. The loophole could be closed and the unfairness to the great mass of taxpayers removed by taxing the investment income of each married couple as a unit.

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The use of separate tax returns for the investment income of husband and wife costs the Treasury, on the basis of present rates, about \$260,000,000 a year, in addition to the revenue that is lost because of the community-property tax privilege.

#### Percentage Depletion

The final loophole which I shall mention this afternoon is one against which the Treasury has struggled for years without avail. If you use a machine in your business and that machine can be expected to last for ten years, you are permitted to deduct each year for ten years one-tenth of the cost of that machine. Because you will probably have to buy a new machine at the end of ten years, this deduction is a fair and reasonable method of allowing you to recover your capital. Needless to say, you are not permitted to deduct more than the cost of the machine.

But you may be surprised to learn that this is not true of mines and oil wells whose owners are permitted over the years to deduct far more than the amount of money which they have put into the property for the conduct of their business. The so-called percentage depletion provision of the income-tax law allows these companies, not simply to deduct a percentage of the cost of their wells and mines each year until the entire cost has been made good, but to deduct an arbitrary percentage of their income indefinitely. An oil company which may long ago have recovered tax free many times the cost of the wells which it is operating is still permitted a deduction of 27 1/2 per cent of the gross income from those very same wells.

The allowance of percentage depletion costs the Treasury, on the basis of existing rates, at least \$80,000,000 a year.

I have pointed out the most glaring examples of these loopholes, but there are others, all of them unfair to the many for the advantage of the few, all of them dangerous to the unity we need to win this war. Perhaps the American

public has been inclined to shrug its shoulders at the defects in our tax laws; yet they are not small matters, either morally or materially, nor are they matters beyond the control of the people themselves.

It has been difficult until now to correct our tax laws because taxpayers have been too few and too indifferent. Until the great body of American taxpayers becomes thoroughly aroused to the injustices which have been left on the statute books year after year, we cannot expect to correct the laws. The remedy lies in your hands as taxpayers.

We Americans can be proud of the unity that has been shown by all sections of our people since Pearl Harbor. But national unity is a precious thing. It will be subjected to many strains in the months and years of trial ahead. For this reason, with your help, I am going to fight for the speedy removal of any defects in the tax laws which may injure our national morale.

We need nine billion dollars in additional revenue; I should like the very first billion of that amount to be obtained by closing the remaining loopholes. If this is accomplished it will be a contribution to the financing of the war, the morale of our people, and the victory of our cause.

Ways and Means

Statement of Secretary Morgenthau before the  
Ways and Means Committee of the  
House of Representatives

March 3, 1942

I am here to offer my suggestions as to our first Revenue Act of the war. I hardly need to emphasize the seriousness of the occasion. The task before us is to decide how this desperately serious war is to be financed and how its gigantic cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems now.

To defeat the strongest combination of enemies in our history, we shall have to spend on a scale for which there is no precedent. If we are to equip and transport fighting men in sufficient numbers to turn the tide, if we are to furnish the weapons to the men who are doing the fighting, we shall have to use every ounce of our national energy and mobilize every possible dollar of our income. The President has announced a program involving expenditures of \$59,000,000,000 in the fiscal year 1943. We shall have to tax in accordance with the magnitude of that program and in accordance with the seriousness of the position in which we stand.

The President's Budget Message in January called for the raising of \$7,000,000,000 in new revenue from taxes, together with an additional \$2,000,000,000 to be obtained from the social security program. The

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unprecedented sum of \$39,800,000,000 will have to be borrowed in the coming fiscal year, even if the new Revenue Act fulfills the President's hopes to the last dollar. I should like to urge, therefore, the adoption and attainment of the goal the President has set, not as the maximum but as the very least that the American people can afford to provide at this critical time.

Our task is more than the raising of a huge amount of new revenue. It is to make the tax program an instrument of victory. It is to frame the new Revenue Act so wisely and so soundly that it will facilitate the maximum production of war materials, hasten the mobilization of our resources, strengthen the unity of our people for the waging of total war, and prepare us for the new economic and social problems that will face us when the war is won.

This means, first, that the new Revenue Act must help to check inflation, for nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. It strikes at random without consideration of equity or ability to bear the hardships which it imposes. Once it has acquired momentum, inflation is extremely difficult to control, and leaves a heritage of post-war stresses and strains that will haunt us for decades.

Today we are confronted with a grave threat of inflation. Prices of food today are following precisely the trend of the first World War; prices of all commodities are rising at a somewhat slower but nevertheless disturbing rate. (A chart showing these trends is attached as Chart 1.) Unless effective preventive measures are taken by all the means at our command, we shall have a rapid general increase in prices, with a resultant rise in the cost of our war effort far beyond the figures now contemplated.

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The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires, first of all, the continuous and willing cooperation of every man and woman. It also requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, rationing, and the regulation of consumer credit are other parts of such an integrated program.

It is important for us to remember that all these controls are interrelated. The devices of price control, allocation and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

We should, therefore, tax so as to withdraw the greatest possible volume of purchasing power at this time, when money incomes are high and the quantity of goods for civilian use is shrinking day by day because of the demands of our war effort.

A second obligation, second pressing duty, is the need for severe economy in the operations of Federal, State, and local governments. The anti-inflationary purposes of our taxing and savings program will be defeated if, at the same time, Federal, State or local governments indulge in unnecessary expenditure.

As you know, I recommended a few months ago the saving of at least \$1,000,000,000 in Federal expenditures which compete with war production and add unnecessarily to the volume of purchasing power in the hands of the people. I recommended especially the immediate reduction of expenditures on highway construction, rivers and harbors, non-defense vocational training and Federal subsidies to keep up the prices of agricultural products.

Since then some economies have been made, but a large field for economy remains, not only here in Washington but in the operations of State and local governments. I should like to urge once more that real and substantial economies be made as a corollary to the new tax program.

I do not mean that we should economize on the health and strength of our underprivileged, for that is no economy at all; but I do mean that we should save in subsidies to those who no longer need Government assistance, and in non-defense construction projects which can be postponed until the war is over.

I have spoken of the need of checking inflation and the need of cutting non-essential expenditures in financing the war effort; I come now to a third and most insistent need that should govern our wartime fiscal program. That is the need of holding fast to the basic principle of our tax system, namely, that taxes should be fair and non-discriminatory and imposed in accordance with ability to pay. The cost of this war will have to be borne by everyone. It will be borne willingly and cheerfully if the principle of ability to pay is followed.

In terms of the new tax program, this principle means that special privileges in our tax laws should be removed. It means that taxes which cannot be adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. It means that undue profits should be recaptured wherever they occur. Unreasonable profits are not necessary in order to obtain maximum production with economical business management. The country will not tolerate the retention of undue profits at a time like this, when millions are pledging their very lives to save and perpetuate our freedom.

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All will be expected to bear their fair share, in the higher and lower income levels alike. The recommendations which I shall now outline to the Committee will involve progressively increased taxes throughout the whole range of individual and corporate income now covered by our tax laws.

### 1. Individual Income Tax

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted to the size of personal income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

I recommend that the individual income tax be changed to yield approximately \$3,000,000,000, or about sixty percent more revenue than will be yielded under the present law.

In recommending this amount I have had in mind the fact that the great bulk of tax increases under the social security changes will also fall on individual incomes. In accordance with the President's views, I feel that the social security program should be expanded both as to coverage and as to protection, and that taxes for this purpose should be increased by approximately \$2,000,000,000 a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

As for the individual income taxes themselves, I am suggesting a substantial increase in the income surtax rates throughout the scale. I should like to give you a few examples to show the effect of these increases on typical incomes.

A single person with no dependents, with a net income of \$3,000, pays \$221 tax under the present law; he would pay \$470 under the suggested schedule. A married person with two dependents, and with a net income of \$3,000, pays \$58 under the present law; he would pay \$118 under the suggested schedule.

A single person with no dependents and with a net income of \$10,000 pays \$1,493 under the present law; the suggested schedule would call for payment of \$2,720. A married person with two dependents and with net income of \$10,000 pays \$1,117 under the present law and would pay \$2,143 under the proposed schedule.

The accompanying chart and tables, which I shall now submit to the Committee, will show the rate scale and comparative effective rates of tax under the present law and under the suggested program. (Chart 2 and Tables 1,2,3,4.)

You will notice that these proposed schedules involve no further lowering of the personal exemptions, which now begin at an income of \$750 a year for a single person and \$1,500 for a married person, with a credit of \$400 for each dependent. The exemptions were lowered in the 1940 Revenue Act; they were lowered again in the 1941 Act, and their value has been reduced still further this year by the rise in the cost of living. Although single persons with less than \$15 a week and married persons with less than \$30 a week do not pay any direct taxes, they already pay a disproportionate part of their little incomes in indirect taxes of all kinds.

Moreover, a further lowering of the exemptions would yield a relatively insignificant amount of revenue from the earners of very low incomes. If I felt that the expenditures of this group added

materially to the danger of inflation, I should not hesitate to recommend the lowering of the exemptions in spite of the small amount of revenue that would be produced. Our studies at the Treasury indicate, however, that the very lowest income earners have all they can do to feed and clothe themselves and their families. Their buying habits are governed strictly by the need of maintaining nutrition and health, and I cannot recommend a direct tax upon them until we have exhausted every possible source of revenue from those who enjoy higher incomes.

Because of the threat of inflation and because of large increases suggested throughout the existing rate scale, it becomes essential to afford a more convenient method for the payment of income taxes. The best available expedient for this purpose is a provision for collecting at the source for those incomes that are paid periodically, including wages, salaries, bond interest, and dividends.

To start such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary substantial speeding up of tax collection, we cannot afford to postpone collection at the source.

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Since it is not known how soon it may become necessary to speed up tax collection to check inflationary price rises, the Secretary of the Treasury should be authorized to begin the collection of income taxes at the source, at any time and at rates within his discretion up to 10 percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to 10 percent of the full amount of dividends and interest. This would not be a supplementary tax; it would simply be a means of collection. It would furnish needed flexibility in relating tax collections to future economic conditions.

## 2. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3,000,000,000, an increase of about forty percent.

A substantial share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than taxes which are generally applicable to all corporate earnings irrespective of the rate of return. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety.

On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence.

It is suggested that the maximum rate of the excess profits tax be increased from sixty percent to seventy-five percent with corresponding increases in the lower rate brackets.

The proposed increases in the excess profits taxes have the additional virtue of recapturing undue profits on war contracts. This method is far better than imposing profit limits specifically on war contracts. The difficulties of segregating profits on war contracts are very great and involve personnel, expense, uncertainty and litigation which we can ill afford at this time. Moreover, it is almost impossible to determine what rates of profit on cost or sales would be equitable under the widely varying special circumstances confronting different industries and contractors.

With rates of this magnitude it is increasingly important to have a fair basis from which to measure the profits subject to the excess profits tax. In addition to the many provisions in existing law to adjust earnings of the base period to take account of unusual circumstances, it is suggested that further relief be afforded where the earnings of the base period were abnormally depressed.

Other changes in the excess profits tax law should also be made, some to eliminate defects which have been brought to light in the operation of the law, and others to eliminate unnecessary hardships. These changes are of a more technical character and will be presented later, at the Committee's convenience.

There should be no further increase in the corporate normal rate because any such increase would result in an undesirable windfall to the holders of partially tax-exempt Federal securities.

It is suggested that the balance of the \$3,000,000,000 in additional corporate taxes be provided by a special war surtax which would absorb the present corporate surtax and would be imposed at the rate of thirty-one percent on corporations with incomes of more than \$25,000. This tax would differ from the present surtax in that a special tax credit would be allowed when the surtax net income for the current year has dropped in comparison to the income for the pre-war period. In a further statement, the Treasury will give the Committee a detailed explanation of this proposed

war surtax and the reasons which have led the Treasury to recommend it.

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits possible. At a time like this, I am confident that incorporated business will willingly pay additional taxes which will, after all, leave it in the aggregate about the same amount of income after taxes as during the years before 1940.

In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production may be tragically inadequate if it depends upon that motive alone. This is a time when we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

The uncertainties of this period also make it important to reduce to the minimum the necessity for prophesying. The capital stock tax and the associated declared value excess profits tax are determined largely by the accuracy of guesses about future profits. It is

suggested that the revenue produced by these taxes can be more fairly and less harmfully produced by the other taxes on corporations and that accordingly the capital stock and declared value excess profits taxes be repealed.

### 3. Estate and Gift Taxes

The estate and gift taxes are imposed at the time of the transfer of wealth from one person to another. Many of the fortunes which are being transferred, and will be transferred in the future, were built up during a period when income tax rates were far lower than they are today. It is much more difficult now to build up large holdings of property. For this reason substantial increases in the estate and gift taxes should be imposed as a method of equalizing tax burdens. The suggested increases are indicated in attached tables. (Chart 3 and Tables 5 and 6.)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of \$40,000 be merged with the existing exemption of \$40,000, and that a single exemption of \$60,000 be allowed. This will increase the present exemption in some cases and decrease it in others, and will remove a discrimination between persons who are insured and those who are not.

It is likewise suggested that the exemption for the gift tax be reduced to \$30,000 and that the annual exclusion of gifts be made a total of \$5,000 for each donor regardless of the number of donees to whom property is given.

These changes in rates and exemptions, together with certain changes designed to prevent avoidance of the tax, should increase the annual revenue from estate and gift taxes by \$300,000,000.

### 4. Excise Taxes

New and increased special excise taxes on distilled spirits, gasoline, cigarettes, soft drinks, candy, and chewing gum, and other items listed in the attached

table, are suggested to raise approximately \$1.3 billion of additional revenue. (Table 7).

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Some of them are imposed on commodities of which there is or will increasingly be a scarcity. Such taxes not only yield revenue but help to conserve materials needed for the war. Those excise taxes not relating to scarce commodities have been chosen so as to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will keep up the demand for those commodities despite the higher taxes. Needed revenue will thus be obtained, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended, and indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and plentiful commodities alike. It strikes at necessities and luxuries alike. As compared with the taxes proposed in this program, it bears disproportionately on the low income groups whose incomes are almost wholly spent on consumer goods. It is, therefore, regressive and encroaches harmfully upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is limited.

##### 5. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great

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mass who must pay what is thereby lost. I am reluctant to recommend that the great mass of the taxpayers of the United States should pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace -- they are intolerable in time of war.

(a) Tax Exempt Securities. An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large tax-paying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great favor of escape from wartime burdens, and surely the States did not offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, there was much to be said for the gradual elimination of tax exemption through taxing future issues only. The national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities.

Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never

been any contract or moral commitment between the Federal Government and the security holders or the State and local governmental authorities regarding Federal taxation. Since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair-minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large tax-paying ability to pay virtually nothing in taxes. The sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing all their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes."

Taxing the interest of future and outstanding issues of State and municipal securities would yield \$200,000,000 a year.

(b) Percentage Depletion. A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage of gross income (27-1/2 percent in the case of persons having an economic interest in oil and gas properties), the deduction being limited to fifty percent of the net income from the property. Under this arrangement percentage depletion goes on even after one hundred percent of the cost is recovered and may substantially exceed depletion based on cost.

In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action

was then taken. The war has intensified the necessity for eliminating any such special favor to one group of taxpayers. The removal of this special privilege would yield \$80,000,000 a year.

One of the reasons asserted in behalf of percentage depletion for oil and gas properties is that it stimulates exploration for such properties. If this is a proper objective, it would be better achieved by a special depletion allowance to those who do explore without indiscriminate extension of the same favor to all owners. At the convenience of the Committee, we shall place before it a plan directed to this purpose.

So far as minerals other than oil and gas are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced or percentage depletion were eliminated.

(c) Separate Returns by Married Persons. A third example of special favoritism in the tax laws is the option allowed married couples to file separate income tax returns. This permission has little or no significance for most taxpayers since at the present time married couples with incomes of up to \$3,500 (the amount is higher in the case of married couples with dependents) pay the same total tax whether they file joint returns or separate returns. It may make a great deal of difference in tax, however, in the case of married couples with large incomes, especially if the income is more or less evenly divided between husband and wife.

This difference in tax is unwarranted since in actual operation the family is the economic unit. Two families with the same total income will usually manage and dispose of that income in a similar fashion, regardless of whether the income is received by only one spouse or is received by both spouses.

The adoption of mandatory joint returns would remove this tax differential and would also eliminate two specific kinds of tax avoidance which are present under existing law. The first is the treatment of community income in the so-called community-property States. In

the non-community-property States the income is taxable to the spouse who earns it. In the community-property States, however, the husband who earns the income may for tax purposes attribute half the earnings to his wife, although he retains the management and control of all the earnings. The result is that married couples with high incomes in community-property States receive a very substantial tax advantage over those living in other States. This advantage would be removed if joint returns were made mandatory.

A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes between husband and wife. For example, if the husband receives a large amount of income from securities, he may reduce the family income tax substantially (and also reduce the amount of estate tax in case he predeceases his wife) by giving a portion of his fortune to his wife. This, and other methods of reducing taxes by married couples, would be eliminated through provision for mandatory joint returns.

Accordingly, it is suggested that the filing of joint tax returns by married couples be made mandatory, with a special allowance for the earned income of the wife or the husband.

At the present rates of individual income tax, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately \$300,000,000.

(d) Other Special Privileges. There are other examples of special privilege in our tax laws which need to be removed. They are to be found in the provisions of our present laws affecting capital gains, insurance company taxes, and pension trusts, and will be discussed in detail later in these hearings. The removal of these additional methods of avoidance would yield about \$100,000,000 a year in additional revenue.

(e) Hardships on Taxpayers. The inequities of our tax laws work in two directions. As I have said,

some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Let me give you a few examples of such inequities which need correction,

If you rent your house to tenants but are not in the real estate business, you are taxed on the rent you received but you may be denied the right to deduct your expenses in producing that income. If, as an individual, you expand your plant to produce war materials, you are denied the benefits of the amortization provision which applies to corporations. If you collect a debt which you previously charged off as worthless, the amount collected becomes part of your taxable income even though you received no tax relief when you charged it off. With rates at wartime levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

### Conclusion

The recommendations I have outlined to the Committee this morning would, if added together, produce over \$8,000,000,000 in additional revenue. Since the effects of any series of tax proposals are inter-related to some extent, we should deduct about \$1,000,000,000 from this total. That would give us the \$7,000,000,000 in new revenue which, as I said at the outset of my statement, should be regarded as the very least that we can call for at this time.

We are at war. An adequate tax program is vital to the successful prosecution of the war. The new taxes will be severe, and their impact will be felt in every American home. War is never cheap; but, as I have said before, it is a million times cheaper to win than to lose.

**PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918**  
 July 1914=100 World War Period; Aug. 1939=100 Present Period

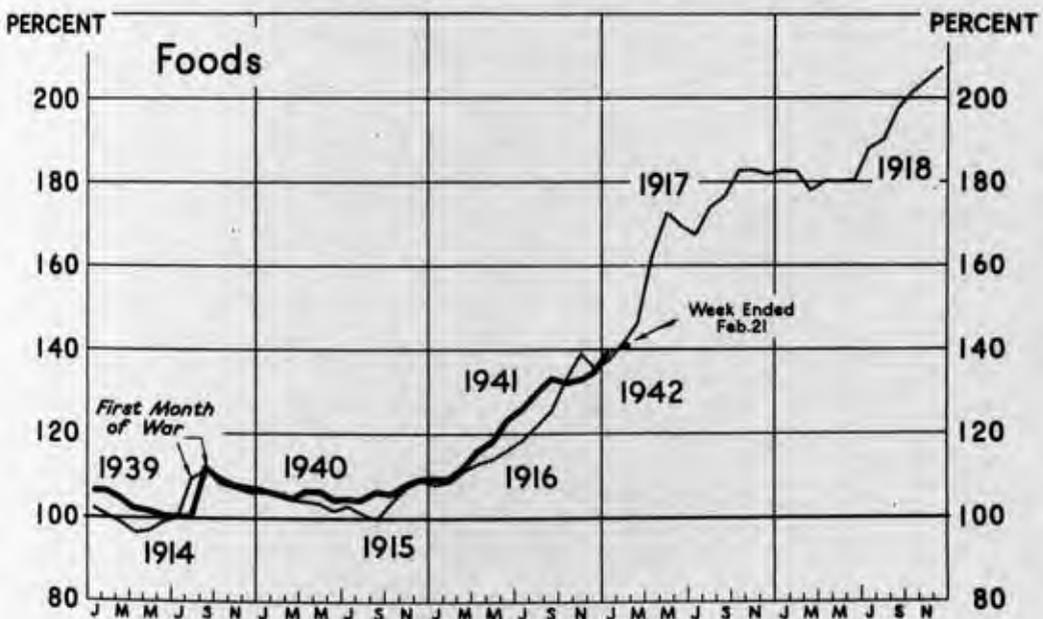
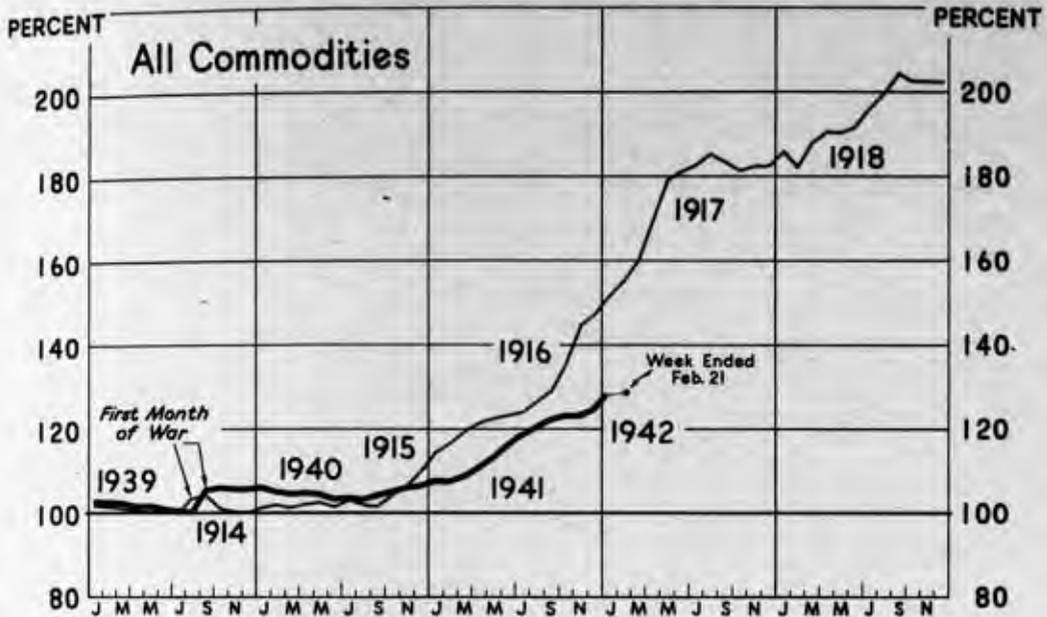


Chart 2

# INDIVIDUAL INCOME TAX

Effective Rates for Married Person without Dependents  
Under Present Law and Proposal

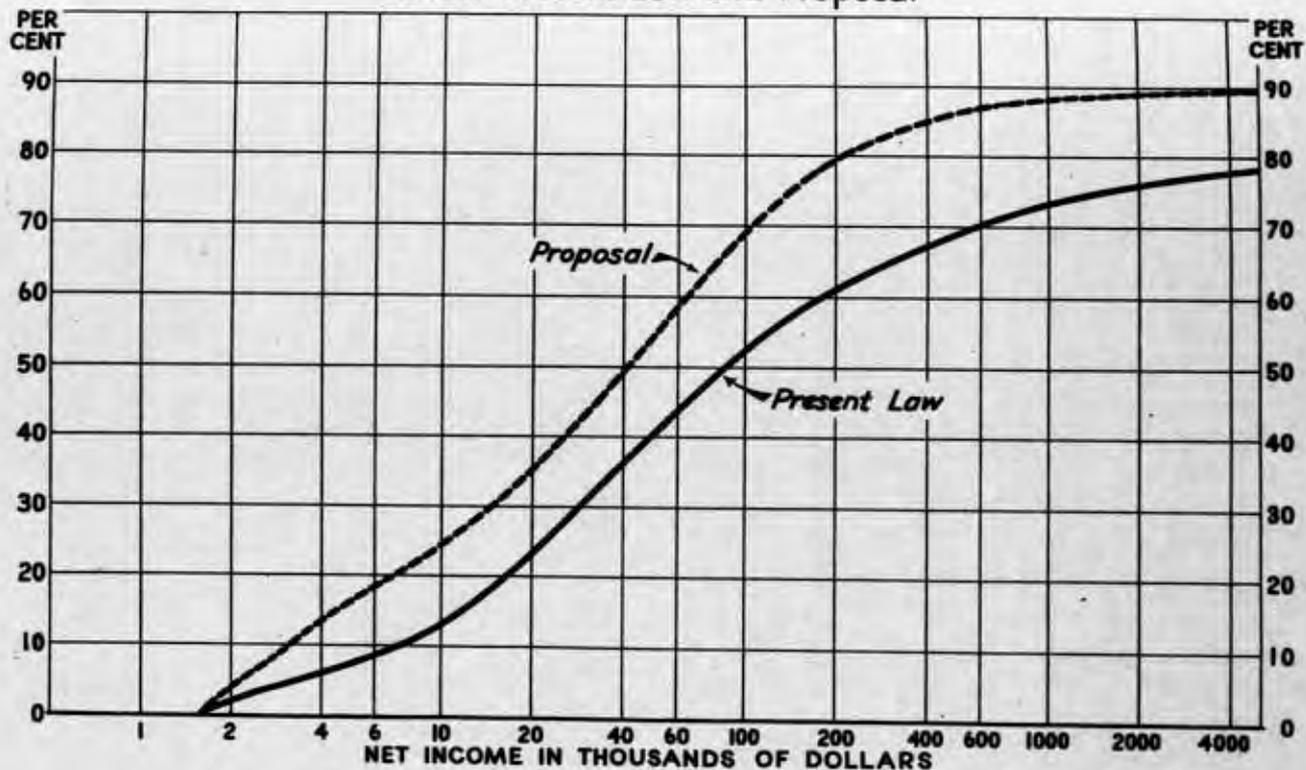


TABLE 1.

Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal	Present law	Proposal
\$ - \$ .5	6%	12%	\$ 30	\$ 60
.5 - 1	6	15	60	135
1 - 1.5	6	18	90	225
1.5 - 2	6	20	120	325
2 - 3	9	22	210	545
3 - 4	9	24	300	785
4 - 6	13	27	560	1,325
6 - 8	17	30	900	1,925
8 - 10	21	34	1,320	2,605
10 - 12	25	38	1,820	3,365
12 - 14	29	42	2,400	4,205
14 - 16	32	45	3,040	5,105
16 - 18	35	48	3,740	6,065
18 - 20	38	51	4,500	7,085
20 - 22	41	54	5,320	8,165
22 - 26	44	57	7,080	10,445
26 - 32	47	60	9,900	14,045
32 - 38	50	64	12,900	17,885
38 - 44	53	68	16,080	21,965
44 - 50	55	72	19,380	26,285
50 - 60	57	76	25,080	33,885
60 - 70	59	78	30,980	41,685
70 - 80	61	80	37,080	49,685
80 - 90	63	82	43,380	57,885
90 - 100	64	84	49,780	66,285
100 - 150	65	86	82,280	109,285
150 - 200	66	86	115,280	152,285
200 - 250	67	86	148,780	195,285
250 - 300	69	86	183,280	238,285
300 - 400	71	86	254,280	324,285
400 - 500	72	86	326,280	410,285
500 - 750	73	86	508,780	625,285
750 - 1,000	74	86	693,780	840,285
1,000 - 2,000	75	86	1,443,780	1,700,285
2,000 - 5,000	76	86	3,723,780	4,280,285
5,000 and over	77	86	-	-

Table 2.

Amount of individual income taxes and effective rates  
under present law and proposal

Single person - no dependents  
Personal exemption \$750

Net income: before personal exemption :	Amount of tax			Effective rates		
	Present law :	Proposal :	Increase in tax :	Present law :	Proposal :	Increase in effective rates :
\$ 800	\$ 3	\$ 8	\$ 5	.4%	1.0%	.6%
900	11	24	13	1.2	2.7	1.5
1,000	21	40	19	2.1	4.0	1.9
1,100	31	56	25	2.8	5.1	2.3
1,200	40	72	32	3.3	6.0	2.7
1,500	69	128	59	4.6	8.5	3.9
1,600	79	147	68	4.9	9.2	4.3
2,000	117	230	113	5.9	11.5	5.6
2,500	165	345	180	6.6	13.8	7.2
3,000	221	470	249	7.4	15.7	8.3
4,000	347	735	388	8.7	18.4	9.7
5,000	483	1,023	540	9.7	20.5	10.8
6,000	649	1,333	684	10.8	22.2	11.4
8,000	1,031	1,990	959	12.9	24.9	12.0
10,000	1,493	2,720	1,227	14.9	27.2	12.3
12,500	2,178	3,740	1,562	17.4	29.9	12.5
15,000	2,994	4,888	1,894	20.0	32.6	12.6
20,000	4,929	7,473	2,544	24.6	37.4	12.8
25,000	7,224	10,418	3,194	28.9	41.7	12.8
50,000	20,882	27,715	6,833	41.8	55.4	13.6
75,000	36,487	48,055	11,568	48.6	64.1	15.5
100,000	53,214	69,625	16,411	53.2	69.6	16.4
500,000	345,654	429,610	83,956	69.1	85.9	16.8
1,000,000	733,139	879,610	146,471	73.3	88.0	14.7
5,000,000	3,923,124	4,479,610	556,486	78.5	89.6	11.1

Table 3

Amount of individual income taxes and effective rates  
under present law and proposal

Married - no dependents  
Personal exemption \$1,500

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 1,500	-	-	-	-	-	-
1,600	\$ 6	\$ 16	\$ 10	.4%	1.0%	.6%
1,700	13	32	19	.8	1.9	1.1
1,800	23	48	25	1.3	2.7	1.4
1,900	32	64	32	1.7	3.4	1.7
2,000	42	80	38	2.1	4.0	1.9
2,100	52	99	47	2.5	4.7	2.2
2,200	61	118	57	2.8	5.4	2.6
2,300	71	137	66	3.1	6.0	2.9
2,400	80	156	76	3.3	6.5	3.2
2,500	90	175	85	3.6	7.0	3.4
3,000	138	285	147	4.6	9.5	4.9
4,000	249	535	286	6.2	13.4	7.2
5,000	375	805	430	7.5	16.1	8.6
6,000	521	1,100	579	8.7	18.3	9.6
8,000	873	1,735	862	10.9	21.7	10.8
10,000	1,305	2,435	1,130	13.1	24.4	11.3
12,500	1,960	3,425	1,465	15.7	27.4	11.7
15,000	2,739	4,535	1,796	18.3	30.2	11.9
20,000	4,614	7,060	2,446	23.1	35.3	12.2
25,000	6,864	9,960	3,096	27.5	39.8	12.3
50,000	20,439	27,145	6,706	40.9	54.3	13.4
75,000	35,999	47,425	11,426	48.0	63.2	15.2
100,000	52,704	68,965	16,261	52.7	69.0	16.3
500,000	345,084	428,935	83,851	69.0	85.8	16.8
1,000,000	732,554	878,935	146,381	73.3	87.9	14.6
5,000,000	3,922,524	4,478,935	556,411	78.5	89.6	11.1

TABLE 4.

Amount of individual income taxes and effective rates  
under present law and proposal

Married person — Two dependents  
Personal exemption \$1,500, dependent credit \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 2,300	-	-	-	-	-	-
2,400	\$ 6	\$ 16	\$ 10	.3%	0.7%	.4%
2,500	12	32	20	.5	1.3	.8
2,700	29	64	35	1.1	2.4	1.3
3,000	58	118	60	1.9	3.9	2.0
4,000	154	333	179	3.9	8.3	4.4
5,000	271	587	316	5.4	11.7	6.3
6,000	397	861	464	6.6	14.4	7.8
8,000	717	1,472	755	9.0	18.4	9.4
10,000	1,117	2,143	1,026	11.2	21.4	10.2
12,500	1,728	3,089	1,361	13.8	24.7	10.9
15,000	2,475	4,167	1,692	16.5	27.8	11.3
20,000	4,287	6,629	2,342	21.4	33.1	11.7
25,000	6,480	9,472	2,992	25.9	37.9	12.0
50,000	19,967	26,537	6,570	39.9	53.1	13.2
75,000	35,479	46,753	11,274	47.3	62.3	15.0
100,000	52,160	68,261	16,101	52.2	68.3	16.1
500,000	344,476	428,215	83,739	68.9	85.6	16.7
1,000,000	731,930	878,215	146,285	73.2	87.8	14.6
5,000,000	3,921,884	4,478,215	556,331	78.4	89.6	11.2

Chart 3  
EFFECTIVE ESTATE TAX RATES  
Before Credit for State Death Taxes

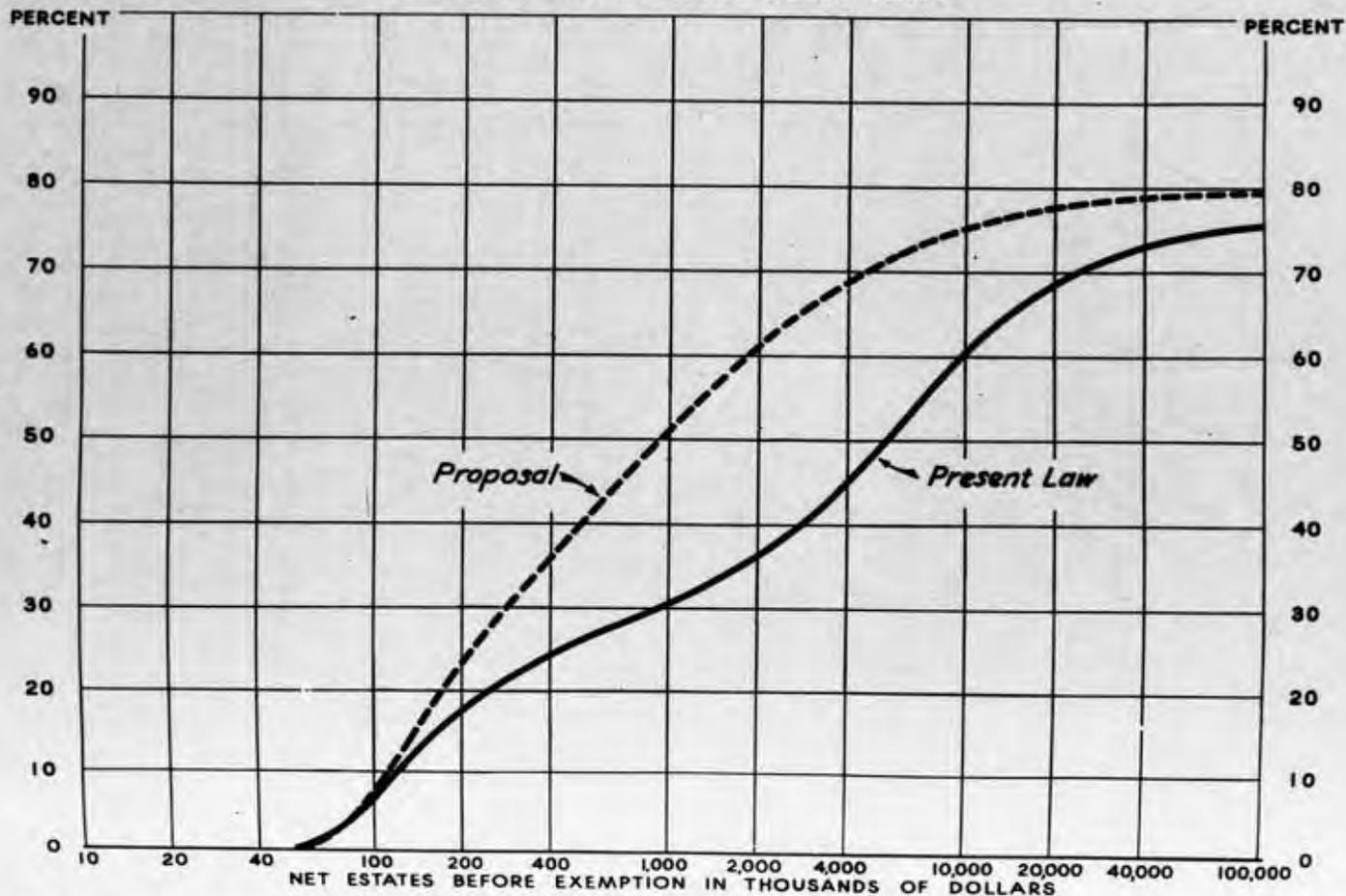


Table 5

Comparison of estate tax rate schedule  
under present law and proposal

Net estate after: specific exemp- tion <sup>1/</sup> (\$000)	Bracket rate		Total estate tax cumulative	
	Present law	Proposal	Present law	Proposal
Under \$5	3%	8%	\$ 150	\$ 400
5 - 10	7	12	500	1,000
10 - 15	11	15	1,050	1,750
15 - 20	11	18	1,600	2,650
20 - 30	14	22	3,000	4,850
30 - 40	18	26	4,800	7,450
40 - 50	22	30	7,000	10,450
50 - 60	25	33	9,500	13,750
60 - 70	28	36	12,300	17,350
70 - 100	28	40	20,700	29,350
100 - 150	30	44	35,700	51,350
150 - 200	30	46	50,700	74,350
200 - 250	30	48	65,700	98,350
250 - 300	32	50	81,700	123,350
300 - 350	32	52	97,700	149,350
350 - 400	32	54	113,700	176,350
400 - 450	32	56	129,700	204,350
450 - 500	32	58	145,700	233,350
500 - 600	35	60	180,700	293,350
600 - 700	35	62	215,700	355,350
700 - 800	35-37	64	251,700	419,350
800 - 900	37	66	288,700	485,350
900 - 1,000	37	68	325,700	553,350
1,000 - 1,500	39-42	70	528,200	903,350
1,500 - 2,000	45	72	753,200	1,263,350
2,000 - 2,500	49	75	998,200	1,638,350
2,500 - 3,000	53	76	1,263,200	2,018,350
3,000 - 4,000	56-59	78	1,838,200	2,798,350
4,000 - 5,000	63	79	2,468,200	3,588,350
5,000 - 6,000	67	80	3,138,200	4,388,350
6,000 - 7,000	70	80	3,838,200	5,188,350
7,000 - 8,000	73	80	4,568,200	5,988,350
8,000 - 9,000	76	80	5,328,200	6,788,350
9,000 - 10,000	76	80	6,088,200	7,588,350
10,000 and over	77	80	-	-

<sup>1/</sup> A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

Table 6

Amount of estate taxes and effective rates  
under present law and proposal

Net estate before specific exemption <sup>1/</sup> (\$000)	Amount of tax			Effective rate		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in ef- fective rates
\$ 60	\$ 500	-	\$ -500	.8%	-	-.8%
70	1,600	1,000	-600	2.3	1.4%	-.9
90	4,800	4,850	50	5.3	5.4	.1
100	7,000	7,450	450	7.0	7.5	.5
150	20,700	25,350	4,650	13.8	16.9	3.1
200	35,700	46,950	11,250	17.9	23.5	5.6
400	97,700	144,150	46,450	24.4	36.0	11.6
600	163,200	257,350	94,150	27.2	42.9	15.7
800	233,200	380,950	147,750	29.2	47.6	18.4
1,000	307,200	512,550	205,350	30.7	51.3	20.6
2,000	730,700	1,220,150	489,450	36.5	61.0	24.5
4,000	1,808,700	2,751,550	942,850	45.2	68.8	23.6
6,000	3,104,700	4,340,350	1,235,650	51.7	72.3	20.6
10,000	6,050,200	7,540,350	1,490,150	60.5	75.4	14.9
20,000	13,749,700	15,540,350	1,790,650	68.7	77.7	9.0
40,000	29,149,700	31,540,350	2,390,650	72.9	78.9	6.0

<sup>1/</sup> The amounts shown as the size of the "net estate before specific exemption" include \$10,000 of life insurance. It is assumed that none of this insurance would have been taxable under present law, which allows a \$40,000 insurance exclusion, in addition to a specific exemption of \$40,000. The proposal would eliminate the insurance exclusion and provide a single specific exemption of \$60,000. In recent years the amount of excluded insurance has averaged about \$6,000 per taxable estate.



7. Wines:				
Still wines -				)
Not more than 14% alcohol	8¢ per gal.	15¢ per gal.		)
14-21% alcohol	30¢ per gal.	50¢ per gal.		)
More than 21%	65¢ per gal.	100¢ per gal.		)
Sparkling wines	7¢ per half-pint	10¢ per half-pint		)
Artificial carbonated wines	3¢ per half-pint	5¢ per half-pint		)
Liqueurs, cordials, etc.	3¢ per half-pint	5¢ per half-pint		)
8. Distilled spirits	\$4 per gal.	\$6 per gal.		279.7
9. Transportation of persons	5% of amount paid	15% on transportation; 20% on seats and berths		94.8
10. Carbonated soft drinks	None	a. Schedule for bottled drinks based on 1¢ per bottle re- tailing at not more than 10¢; b. 80¢ per lb. of carbonic acid gas used in unbottled drinks		146.9
11. Candy and chewing gum	None	15% manufacturers' sales price		45.3
12. Cigars	Rate schedule	New schedule 1/		13.1
13. Smoking tobacco	18¢ per lb.	36¢ per lb.		26.8
14. Cigarettes	\$3.25 per M.	\$3.50 per M - 10-cent brands; \$4.00 per M - 15-cent brands		188.6
15. Cigarette papers and tubes	Schedule	No exemption; tax all papers and tubes 1/2¢ per 25 papers or tubes		7.8
	Total			<u>\$1,344.9</u>

1/ Class A, retail price 2-5¢, tax \$2.50 M; B, 5¢, tax \$5.00 M; C, 5.1-8¢, tax \$7.50 M; D, 8.1-10¢, tax \$10.00 M; E, 10.1-15¢, tax \$15.00 M; F, 15.1-20¢, tax \$20.00 M; G, 20.1-30¢, tax \$25.00 M; H, 30.1 and over, tax \$40.00 M.

Table 8

Corporation tax plan under present law  
and under the proposal

	: Present : : law :	: Proposal
<b>1. Excess profits credit</b>		
<b>a. Invested capital method:</b>		
First \$5,000,000 of invested capital	8%	8%
Over \$5,000,000 of invested capital	7	7
<b>b. Income method:</b>		
Portion of average earnings in base period, 1936-1939	95%	95%
<b>c. Specific exemption</b>	\$5,000	\$5,000
<b>2. Excess profits tax rates</b>		
Adjusted excess profits net income:		
First \$20,000	35	50
\$ 20,000 - 50,000	40	55
50,000 - 100,000	45	60
100,000 - 250,000	50	65
250,000 - 500,000	55	70
Over 500,000	60	75
<b>3. Income tax</b>		
<b>a. Normal tax</b>		
(1) Corporations with net income of not more than \$25,000:		
First \$5,000	15	15
\$ 5,000 - 20,000	17	17
20,000 - 25,000	19	19
(2) Corporations with net income over \$25,000:		
Flat rate	24	24
<b>b. Surtax</b>		
(1) Corporations with net income of not more than \$25,000:		
First \$25,000	6	16
(2) Corporations with net income over \$25,000:		
First \$25,000	6	31
Over \$25,000	7	31
(a) Relief provision: Corporations with current year surtax net income less than the average surtax net income for the base period years, 1936-1939, are allowed a tax credit of 10% of the difference, but not to exceed 20% of surtax net income. This provision applies only to corporations with net income over \$25,000.		

Table 9

Estimated revenue increase from  
proposed tax program

	Increase over yield of present law <sup>1/</sup> <hr style="width: 100%; margin: 0;"/> (In millions of dollars)
Individual income tax	\$ 3,200
Corporation taxes	3,060
Estate and gift taxes	330
Excise taxes	1,340
Removal of special privileges, approximately	680
Eliminate exemption from income and profits taxes with respect to interest from all State and local governmental obligations	\$ 200
Percentage depletion	80
Mandatory joint returns	300
Other, approximately	100
Grand total	\$ 8,610
Less allowance for interrelated effects, approximately	1,000
Approximate increase in revenue from proposed tax program	\$ 7,610

<sup>1/</sup> For a full year of operation.

Letter to President of  
April 3

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

- 2 -

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,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

cc: Harry Hopkins	Leon Henderson
Harold Smith	Vice President Wallace
Lauchlin Currie	Donald Nelson

## STRICTLY CONFIDENTIAL

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

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the big increase is expected to come from the wage earner through the newly developed plan of voluntary payroll savings.

(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 consumers' 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

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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.

(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.

## 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 offset 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 had 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' 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

- 3 -

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 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

- 4 -

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

- 5 -

already disproportionately heavily taxed through Federal excise 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 based demands for wage 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 passed 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 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

- 6 -

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 accordingly 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.

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. 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

- 7 -

the defense program, has largely disappeared. Labor has given up the right to strikes. 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 freezing 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.

# 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

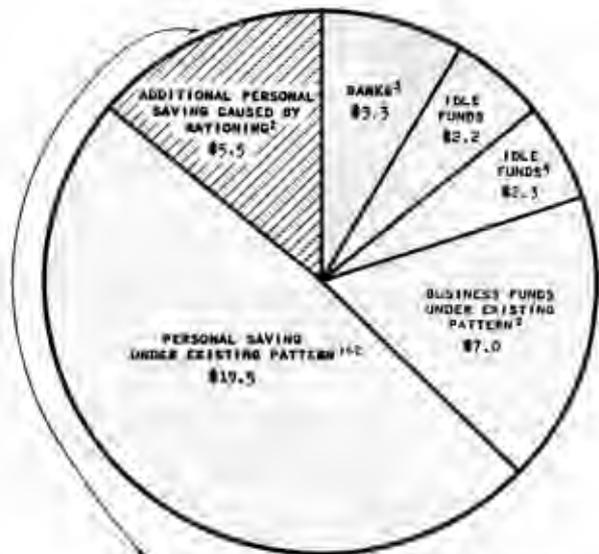
Noninflationary borrowing.....	\$26.6
Inflationary borrowing.....	11.0
<b>Total borrowing.....</b>	<b>\$39.6</b>



**Assumption 2**

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

Noninflationary borrowing.....	\$14.3
Inflationary borrowing.....	5.5
<b>Total borrowing.....</b>	<b>\$19.8</b>

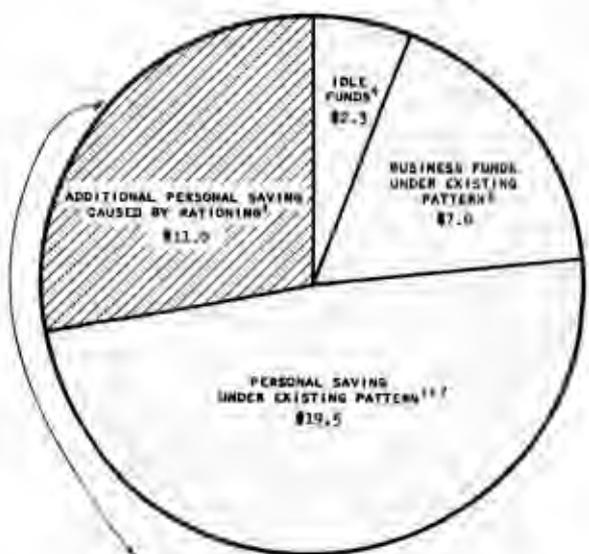


\$5.5 BILLIONS OF ADDITIONAL PERSONAL SAVING BROUGHT ABOUT BY RATIONING (INDICATED BY CROSS HATCHED AREA) HAVE REPLACED AN EQUAL AMOUNT OF INFLATIONARY BORROWING FROM BANKS.

**Assumption 3**

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

Noninflationary borrowing.....	\$19.8
Inflationary borrowing.....	-
<b>Total borrowing.....</b>	<b>\$19.8</b>



\$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.

NOTE: 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.

April 10, 1942  
4:15 p.m.

Keith  
Morgan: Hello.

HMJr: Henry Morgenthau, Jr.

M: Oh, hello, Mr. Secretary. How are you?

HMJr: Fine.

M: Glad to hear from you, sir.

HMJr: Glad to see you - hear you. Keith, the President talked to me about talking to you in connection with the possibilities of our having a very much more extended drive on War Bonds.

M: Yes, sir.

HMJr: And if you would be interested in the possibility of being associated with us on it, I'd like you to come down here and talk to me about it.

M: Well, I'd like to come in and see you, Henry.

HMJr: How about Tuesday?

M: Well, would it by any chance be possible to make it tomorrow? I tell you why. You know, I just lost my mother.

HMJr: I know you did.

M: And I'm just in the midst of trying to get on top of my own work, which I neglected during the whole campaign and her affairs.

HMJr: Yes.

M: And I have a meeting both Monday afternoon and Tuesday.....

HMJr: Yeah.

M: ....with the fellows in regard to the will and the so forth.

- 2 -

HMJr: Yes.

M: And so if I could make it tomorrow, by any chance - if you could squeeze it in, why it would help me a little bit. Otherwise, of course, I'll try to come Tuesday.

HMJr: Well, no - I tell you, it isn't a matter of days; in fact, if I had a little more time, I'd know a little bit better where I'm at. Would you be streightened out Wednesday?

M: Wednesday or Thursday I would.

HMJr: You would be.

M: Yeah, or I'll make it a point to be.

HMJr: Well, do you want to come down Wednesday morning or Wednesday afternoon?

M: Well, Wednesday morning will be all right. Then I can come on that night train.

HMJr: Well, let's say ten-thirty, then, Wednesday morning.

M: Ten-thirty Wednesday morning.

HMJr: Then we'll know better where we're at.

M: Yeah, all right, sir. I'll be there.

HMJr: That'll be fine.

M: How's the family?

HMJr: We're well. I'm awfully sorry - the President told me about your mother. I'm sorry.

M: Well, being such an active part of our family, we're sort of in a daze.

HMJr: Well, I don't - I'm not surprised. Well, then, supposing we say ten-thirty Wednesday morning.

M: Yes. All right.

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HMJr: Good.

M: Good-bye.

HMJr: Thank you.

April 10, 1942  
4:30 p.m.

INFLATION  
Present:

Mr. Gaston  
Mr. Blough  
Mr. Foley  
Mr. Sullivan  
Mr. Kuhn  
Mr. White  
Mr. Bell  
Mr. Odegard  
Mr. Graves  
Mrs. Klotz  
Mr. Paul

H.M.JR: I went to the White House at ten. I have been back fifteen minutes. For three hours at Cabinet we battled, and I was against a solid phalanx on this business and when I tried to show them that we could get from nine to eleven billion dollars, the reaction of Wallace was all right, we will do ten percent forced savings. In other words, they are just determined to do that. And then in the thing, Roy, it developed - which I didn't know, and the only time I sort of got angry - that when they want to go to collect the taxes on the lower income group, the twelve percent, they were going to do it at the source, and that was news to me. Did you know that they were thinking of doing it at the source?

Mr. BLOUGH: Yes. They propose to raise your one to ten percent, to twelve percent to start right away.

H.M.JR: Well, anyway, on the labor front and everything it is just - I won't go through all the agonies that I went through this morning, but I happened to have

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lunch - and all this is in confidence - with Judge Rosenman and Mrs. Anna Rosenberg, whom most likely none of you ever heard of.

(Mr. Paul entered the conference.)

H.M.JR: I say I was at lunch with Judge Rosenman and Mrs. Rosenberg. It seems that once a week - I don't know how they keep it secret - the President meets with what he calls his Labor Cabinet, which is composed of Murray, and Green, and Tobin, and a couple of others I don't know.

MR. FOLEY: Meany?

H.M.JR: Meany, yes, and Mrs. Rosenberg. Well, at this meeting he raised the question of forced savings against volunteer savings, and she mentioned the economists by name who were for forced savings, and then he says the Treasury comes in and says it is all right, and he wanted to know where they stood and to a man labor backed up the Treasury to a man, and insisted we must have it on the volunteer basis. Mrs. Rosenberg said to me, "Mr. Morgenthau, you have got a better standing, better public relations, with labor than anybody else in Washington," and she said, "They backed you to a man and everybody except C.I.O. said they would go ten percent, and C.I.O. said they could do it with the Automobile Workers, but the didn't think they could do it with the others." But she said, "To a man they backed you. I don't want forced savings and they are ready to go and give you the very best organizers they have to help you."

Well, I got this memorandum at last from the Treasury, and the President brought it up at Cabinet. Immediately Wallace started to go after him and "Cut with the Treasury," doing it, unless they would give the President a check for nine billion dollars. I had to give him this memorandum. I hope it is all right. I read the first paragraph. I don't know the rest that is in it. The President practically did tell them then and there that he was going to do this thing on the volunteer basis.

MR. GASTON: Oh, he did?

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H.M. JR: Oh, yes.

MR. GASTON: At the Cabinet?

H.M. JR: At the Cabinet.

MR. GASTON: Good for him.

H.M. JR: Much to the displeasure of Henry Wallace. He got a little ugly about it. He said, "That means you have to give him a blank check." And I said, "I can't give him a blank check, but if the President will announce the campaign I am confident we can do what we said we would do."

MR. GASTON: I wrote you a memorandum on a job for the OCD. I think it is important.

MR. SULLIVAN: That is a good memo.

H.M. JR: I haven't read it. I am very tired. Now, here is the amazing thing, so we are all right on that front. That is settled.

MR. GASTON: Swell.

H.M. JR: When I said I didn't have a friend outside the Treasury, we find that labor is one hundred percent with the Treasury, which pleases me more than anything else. I would rather have them with me than anybody else. Unless the President calls for Judge Rosenman, he will be here at nine o'clock tomorrow morning, Randolph. I hope you are feeling all right, because you have got a job to do tonight which ought to be easy and a pleasure.

These stupid asses around Harold Smith, in order to satisfy labor, they want to go after the rich people, and in this memorandum which was written by Harold Smith - there is a complete memorandum - the President says in a message to Congress, "I direct the Treasury to send up new legislation to get the war profits."

So I blew up. I said, "What do you people think we have been doing?" I said to Harold Smith on this question of deductions, "I don't know who did this thing, but they don't know any more about administration of taxes than the man on the street," and I said, "It is our responsibility to carry the thing and these people write things like this." I said, "What do you think we are doing in excess profits?" I said, "We have seen Mr. Nelson and we have seen Mr. Patterson, and we have seen Mr. Forrestal, and they say when we go to eighty percent, that is the tops and we can still get production."

"Well, they want a hundred percent."

I said, "Well, they don't know what they are talking about." Why should people like that be writing memoranda for the President when they are not charged with the responsibility, and they don't know their business. I said, "It is ridiculous."

So Marriner Eccles said, "Well, I want ninety-five percent, and give them no loophole," and I said, "Marriner, I suppose nothing would ever satisfy you."

"Well, I have talked to Paul about it. That gives them a loophole, and that should be changed." I said, "Well, you talk to Paul about it," and he said, "I have." And I said again, "We are charged - I am telling you that when we go to eighty-eight percent, and we see the three responsible agencies in charge of production, and they say that is maximum, that is, I say, as far as you can go without interfering with production."

MR. PAUL: What he is talking about is kicking about our not reducing the income credit.

H.M.JR: Well, nothing will ever satisfy him. Well, the gist of the thing, which ought to be a pleasure for you, on your (Graves') front we are all right, you see. The die is set because labor says they want it, and when labor says they want it, the combined labor, that settles it, and the President made the plea for us on the thing

so I think that is in the bag. Now, certainly between now and nine o'clock tomorrow morning it ought to be very easy for you (Paul) to write a brief to submit to Judge Rosenman in his own language, "What do we do to the rich man?"

MR. PAUL: That means both individuals and corporations?

H.M.Jk: Yes. I can't understand these people. They don't read anything, they don't see anything, they don't hear anything unless, as Walter Stewart put it, "Their own name is on the thing. Then it is wonderful, and perfect, but unless their name is on the thing it is no good." And I want to say, without looking at anybody, for those people who have had their doubts about Walter Stewart, he came down here and examined the thing from stem to stern. He was opposed to a ceiling on labor, and he was one hundred percent for the Treasury program with no reservations, and he said, "Stick to it, and don't change one inch. If you give in one inch you are lost. Stick by your principles. Rather go down with your flag flying than give in one inch." And he said, "As to a ceiling on labor, you can't have it because I don't care what happens after the war, the important thing now is to get production, and if you do anything to upset labor it upsets production and never mind what happens to the post war thing, let's win the war first." and I sent him down to talk to you (Kuhn).

MR. KUHN: We had a good talk with him yesterday.

H.M.Jk: He said, "Let's win the war first and never mind what happens after the war." He examined everything and went away saying, "Don't change and don't give in an inch." It was a good support for me, because I wanted a man from the outside who had nothing at stake other than his country to look at the thing.

MR. BELL: He felt very strongly about it. I talked to him.

H.M.Jk: Very strongly. He said, "The trouble is, people are trying to slap Germany with their open hand when they should hit them with their fists."

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At Cabinet I brought up the thing about the forty-six important speeches and only three spoke about Germany, "We will be hating each other unless we got to hate the Germans," and the President spent fifteen minutes on it.

MR. KUIN: Approving the idea?

H.M.JR: Yes. So I am exhausted.

Randolph, I don't know what they want, I don't know whether you can work yourself up into a lather against business, but do the best you can.

MR. PAUL: You should have been up on the Hill today.

H.M.JR: But to do what this bill does, to take care of war profits and what it does to the rich man. I don't know what is the matter with these people, but they just don't see, as I say, to read or hear anything. I mean, this would be in a form that the President could use, you see.

MR. PAUL: In the form of what?

H.M.JR: A speech.

MR. GASTON: They think--

H.M.JR: Speech. Do you see what I mean? I mean, this is something for - but instead of what Sam said to me, instead of doing what these fellows say, directing us that we should strengthen our excess profits and go after the war thing. Judge Rosenman, after listening said to me, "Well, don't do it that way, Henry, give a statement of what the tax bill does and have the President say, 'Now, boys, this is what the Treasury recommends, and I want you to pass it, see. I want you to pass it.'" Why don't you smile?

MR. PAUL: I was thinking, I want to bring one thing to your attention that I think ought to be faced. We have

always believed that the excess profits tax would be stronger if we reduced that income credit, and we are also quite clear that if we put up that argument it will take about three to six months longer to pass the tax bill and, therefore, we made a sort of an informal deal about the fifty-five percent.

Now, we can make a good picture without that, but I want you to--

H.M.JR: Listen, Marriner Eccles didn't get to first base. Give me an exposition of a demagogic support of what this thing does to the big corporations and to the rich man and they can tone it down as much as they want to. Then when the Judge is here, you can say, "Now look, Judge, I would have done what Eccles suggested, but we didn't do it because it would take three to six months longer."

MR. PAUL: All right.

H.M.JR: But stick by your bill. If you once leave the thing you are sunk.

MR. PAUL: Oh, I know. I have talked to Marriner on that point.

MR. BLOUGH: Do you want one good demagogic statement right now?

H.M.JR: But I can't get a smile out of Paul.

MR. BLOUGH: This ought to make him smile.

H.M.JR: Something ought to make him smile.

MR. BLOUGH: Take a dollar of excess profits earned by a big corporation. Put our taxes on the dollar, pay the rest of it out to the wealthy stockholder, put our taxes on the wealthy stockholder, and before he pays his state taxes he will, out of the dollar, have one cent left.

H.M.JR: Well, I should think that would even--

MR. PAUL: That is not demagogic. That is a cold fact.

MR. GASTON: How wealthy is the stockholder?

MR. BLOUGH: A hundred thousand dollars or more.

H.M.JR: Have you got enough pep left to give me this by nine o'clock tomorrow?

MR. PAUL: I have got plenty of pep. My smile is not the thermometer of my pep.

H.M.JR: What makes you smile?

MR. PAUL: Well, a variety of things, I am glad to say.

H.M.JR: If no one else will say it, I think I did a fairly good job for the Treasury.

MR. GASTON: Well, you started in gloomily and then you came out with victory. The end was pretty pleasant.

H.M.JR: Well, we have won on the volunteer. Oh, wallace is against lowering the exemptions.

MR. PAUL: Anything on the sales tax?

H.M.JR: Wallace is against the sales tax.

MR. BELL: Well, he has come around some, hasn't he?

H.M.JR: And your (Bell's) friend Harold Smith said, "Well, I don't have time to go into details. I really don't know. I haven't had time to form an opinion." So he said, "You had better not put me down one way or the other." I said, "Now, wait a minute, Harold, I thought you people wanted a sales tax." "Well," he said, "I left the door open in the budget message for the President."

MR. BELL: He did?

H.M.JR: Yes.

MR. BELL: The President did?

H.M.JR: He said he did.

MR. BELL: He didn't write it.

H.M.JR: "I think we should have it, but I just don't get down to details. I have my experts working on this thing." That is what your friends say.

MR. BELL: Experts, if any.

MR. GASTON: I think the wonderful feature of this whole performance is they have four definite particular socks-in-the-jaw for labor and then they say, "I order the Secretary of the Treasury to do something about the upper brackets." They are very definite about those four points that they are going to sock the working man, and then they say, "Well, we will order the Secretary of the Treasury to fix it up so far as the upper ends of the scale are concerned."

H.M.JR: And they all were against the confiscation above fifty thousand dollars. Now, Harry, this will interest you on the labor thing. Mrs. Rosenberg was supposed to be the liaison man between the President and LaGuardia and Lehman and all on labor. She says the weakness of not having a ceiling, if you leave it on the volunteer basis, and you leave it up to Murray to say to his boys, "You can't ask for an increased wage," Then she said, "John Lewis comes along and says, 'See, I want you to get an increase, but here is Phil Murray telling you you can't.' Therefore," she says, "The President has got to say it. Otherwise it leaves Phil Murray in an impossible position." I am not arguing, I am just telling you what she says. "It leaves it wide open for John Lewis to go to town."

Now, they have to hold twenty mass meetings

to get them to agree to give up double time on Sunday and they are not through yet, although they have made a promise. But she says, "From a strategic standpoint, it leaves Phil Murray in an impossible position."

MR. WHITE: If he doesn't put a ceiling on wages?

H.M.JR: Yes, if the President doesn't.

MR. WHITE: If the President does not?

H.M.JR: You see, I made my big plea, "Let's have all of this on the volunteer basis. Let's have the President say, 'Labor, you are on your honor. If I keep it down, I am putting you on your honor not to ask for increased wages,' and then it leaves Lewis free to ask for an increase." But the President puts a ceiling on wages, and then it takes the curse off the thing.

MR. WHITE: Neither Murray nor any of his men are aware of that. They feel very strongly the other way.

H.M.JR: Well, again, it is not my field. She said, "Won't you change?" - No, Judge Rosenman said, "Can't I say that you are for this?" I said, "No, I feel this way, and I want the President to know how I feel. I think that the thing should be left up to labor to do their bit if he keeps the cost of living down, and you tell him. If he doesn't want to do it that is his business, but I am sorry, I can't change. You may be right," I said. And then they used the argument that new labor comes in and very little of it is organized, and how are you going to keep them down and all that, but anyway, she, to my amazement, is for a ceiling on wages.

MR. WHITE: It amazes me too.

H.M.JR: But Rosenman said, "Won't you change your position?" and I said, "No, I want the President to know where I stand." And the other thing, in this room, she said, "The hatred on the part of organized labor against Leon Henderson is unbelievable. They consider him the greatest traitor that they have."

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MR. WHITE: Because he wanted a ceiling on labor?

H.M.JR: No.

MR. WHITE: That is when the fight began, Mr. Secretary, when he wanted to freeze labor.

H.M.JR? No, there is something else.

MR. GASTON: It is hard to know what they are talking about when they talk about a ceiling on wages. There are so many different methods.

MR. WHITE: I am very interested in--

H.M.JR: I am just passing it on. We are talking here in the Treasury family for what it is worth, but she said that the venom and the hatred of organized labor against Leon Henderson is unbelievable. I don't know what the ground - after all, we had about forty minutes together and each of us did a little talking, and I didn't want to go in and ask a lot of questions.

MR. WHITE: So there is no exemption, no lowering of exemptions, no sales tax--

H.M.JR: No. Now, wait a minute. The only thing I can tell you that is on the positive side is, we get the earnings through the volunteer method. That seems to be positive. And then if Paul can put up a good plea, I mean, he will have to stultify himself a little bit, but--

MR. PAUL: Oh, no, that doesn't worry me any.

H.M.JR: But I mean, if he will do a little bit of the straining of the nerves he may be able to demonstrate that the tax bill does get something from the rich people and something from the corporations.

MR. BLOUGH: He doesn't need to stultify himself.

H.M.JR: I am being funny. And if he can give a good

talk tomorrow morning to Mr. Rosenman, I think that that kills all their suggestions. Now, I think we have killed the sales tax, but I am not sure about lowering exemptions. I don't know. Now, if somebody could give me - oh, by the way, Harry, Rosenman kept the memorandum to you with a memorandum from Henderson. I want it again for my records, please. You will have to get another one, see.

MR. WHITE: I will try.

H.M.JR: Well, they will give you one. Just call him up and tell him I gave it to Judge Rosenman. Henderson saw me do it. *See White's memo of 4/10 transmitting G.I. parts news*

MR. WHITE: Oh, I am sure then he will have another copy.

H.M.JR: Henderson saw me do it.

Dan, just remind me, will you please, next Friday or Saturday, Sumner Wells has been after me for six weeks to send somebody over to talk post war. They have got a committee over there.

MR. BELL: Haven't we got a member on that?

H.M.JR: No, I never appointed one. I couldn't spare anyone. So I think we are in pretty good shape.

MR. GRAVES: Swell. We are still just to mark time so far as taking any positive action is concerned.

H.M.JR: Yes, because as I told the President at Cabinet, "Mr. President, everything that I say depends upon your launching it."

MR. GRAVES: Yes.

H.M.JR: So he said, "What do you mean, launching it?" "Oh," I said, "Buy another twenty-five dollar bond." He says, "All right, but I will have to borrow the money." (Laughter)

So I said, "Everything depends upon your launching it." I think we are in pretty good shape. Harold Smith sat there and didn't enjoy any of this.

MRS. KLOTZ: Does he ever?

H.M.JR: When he wins. I was surprised at how bitter Wallace was about it in Cabinet.

MR. KUHN: He has been very friendly to the bond thing ever since it started, very helpful.

MR. BELL: Do you think he was sold on this plan or maybe it came the other way? I think this thing goes back to the two months Mr. Maynard Keynes spent here in Washington. I think that had a lot to do with it. Well, if you people will excuse me, I will go home and Harry, after we get through with the Judge tomorrow, I will be available for you. We will just mark time, Harold, and somebody - Ferdie and Peter might write a part for the President's speech in which he would make his appeal to the country. Are you here, Peter, until tomorrow noon?

MR. ODEGARD: Yes.

H.M.JR: Well, the two of you could get busy and write the part for his speech making an appeal to the country, coming in on the quota and the ten percent and so forth. I would get busy on that. See 4-11-42

MR. ODEGARD: Yes.

H.M.JR: Then we can give that to the Judge. They will expect us to do that. Don't you think it is pretty good?

MR. SULLIVAN: I think it is swell. It is a real win.

H.M.JR: I think it is pretty good. I think we are going to get pretty nearly - what do you call it when you win - across the board?

MR. FOLEY: That is it, across the board.

H.M.JR: I think we are going to get it.

MR. FOLEY: Win, place and show.

MR. SULLIVAN: Money on each horse.

MR. WHITE: All that is left now is for your horse to come in. (Laughter)

MR. SULLIVAN: I too will feel better when I turn the radio off.

H.M.JR: But I think we are in pretty good shape.

MR. BELL: Better than you were this morning when you went over.

H.M.JR: Well, Rosenman listens, and the fact that labor was with us and the fact that these fellows crowded everything on the lower income group and then we submit situations before a group like that, you see, he won't talk up and plead for his thing openly, you see. He practically - oh, he didn't say fifty words the whole morning. You see, he won't fight publicly. He will go behind and secretly undermine you, but he won't come out in front of Rosenman and make the plea and say, "well, this is my plan and Morgenthau is wrong." He doesn't understand and so forth. He won't fight out in the open.

MR. BELL: He didn't have his men there, of course?

H.M.JR: No. I mean, he won't fight in the open.

MR. FOLEY: He doesn't want to get his glasses broken.

MRS. KLOTZ: Oh, tell him that story.

H.M.JR: When I walked in he walked up to me and he said, "if we are going to fight we have to take our glasses off," showing subconsciously what he was thinking. I said,

"Harold, that is very funny, but I am going to be serious and answer you." I said, "I haven't got time to fight you. There are too many enemies knocking at our door for you and me to be fighting." That was my answer. I said, "I know you think you are very funny."

The President called me back after Cabinet and he said, "Henry, wasn't I good?" I said, "Why?" He said, "I never kidded Jesse once."

And then Jones brought up a thing that I was very nice about. The man looked sick in Cabinet. He said, "You know on this silver that you are going to lend, you are going to lose about eighty million dollars." So I said, "How?"

"Well, they are going to take it away from you." So Nelson said, "How are they going to take it away from you with thirty thousand volts going through it, Jesse?"

MR. WHITE: Turn the switch.

H.M.JR: So Jesse said, "Well, I am just putting you on notice." So I said, "Well, Jesse, I am afraid your boys are a little bit behind time." I didn't want to rub it in. So he said, "I am telling you." I said, "Well, Jesse, telling me before Cabinet isn't enough. You will have to put it in writing. Just telling me before Cabinet, that isn't enough." So he said - he stopped me afterward and he said, "There is something - I think you are wrong, but," he said, "I am going to look into it." So I said to Nelson, "Is there anything for me to worry about?" He says, "No, they can't lose it. The thing doesn't melt away, you get it back."

MR. FOLEY: No, that is right, and I thought what we might do after we get our plan already and after we have our contracts prepared and so forth, perhaps ask for an amendment of the losses in shipment and to cover that silver when it is stored in these other countries, and get backhand Congressional blessings at the same time.

H.M.JR: I loved the way Don Nelson talked me up. He said, "Jesse, how can you lose it with thirty thousand volts?" I said, "Well, Jesse, find a way to steal it."

MR. WHITE: Thirty thousand volts are nothing to Jesse.

MR. BELL: He is a non-conductor.

MR. FOLEY: Better to lose a little of that than to lose the war.

H.M.JR: I think we are in much better shape than we were, but what it has done to me is nobody's business. I wish I could get a smile. I got Roy Blough smiling.

MR. PAUL: If this thing goes through, you are going to be the white-haired boy up on the Hill, I will tell you that.

H.M.JR: Really?

MR. PAUL: Oh, sure.

MR. SULLIVAN: Yes.

H.M.JR: Now, you (Blough) be here tomorrow, too, if that is agreeable to Paul. I told Rosenman, who evidently doesn't know you (Paul), I mean personally - he knows you by reputation - that you would give him the attitude of the Hill tomorrow, see, and I told him - he said, "How long do we want?" I said, "An hour. You have got to get the attitude of the Hill. All these fellows are doing is recommending something whereby we will lose the money from the rich people and put it on the poor fellow."

MR. PAUL: Right.

H.M.JR: And I said, "You have got to get the stuff." I said, "Paul is up there every day, and these fellows sit over in some cubby hole and concoct this stuff. They don't

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know the Hill. They don't know that next fall is going to be election, and they don't know the Internal Revenue side. So I expect you to give him that, and pour your heart out to him, will you?

MR. PAUL: All right.

April 10, 1942.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

SUBJECT: A job for the O.C.D.

All of the Government economists seem to be agreed that inflation is a serious menace and that it can not be met by any one method of control, but that a great variety of efforts on many fronts is needed.

I think if they were pressed that all of them would agree that all of the compulsory controls we can apply will not completely solve the problem. It seems to me apparent that here is one spot where voluntary civilian participation in the war effort probably would be more useful than in any other single type of war activity.

What we need is a widespread, intensive civilian campaign against all unnecessary spending. The public should be told that practically every purchase takes something away from a supply of goods that is not sufficient to go around and that anybody who buys what he doesn't need is either robbing our armed forces, or taking something away from a civilian who needs it desperately. Communities should be organized to carry on campaigns to teach housewives how to economize on food and clothing and on all household necessities. It should be made a matter of pride and patriotism to wear old clothes, to eat simple meals, to patch up all sorts of appliances rather than buy new ones; to refrain from making any repairs that are not urgent, and to do everything else possible to cut down expenditures. They should be repeatedly told that there is not enough to go around, that to buy or use more than is absolutely needed is to be greedy, that to be greedy is to be unpatriotic, and that to be unpatriotic in this way is to increase the danger of defeat in the war.

Of course, along with this, they will be told what to do with their savings, which is to put them into War Savings Bonds and stamps.

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A thrift campaign of this sort - a "Save to Win the War" campaign - seems to me to be particularly in the province of the Office of Civilian Defense and will give them something far more useful and realistic to do, in my opinion, than anything in which they have so far busied themselves. In comparison with this project such matters as first aid and black-out practice, while worthy enough in themselves, are mere boondoggling.

*MSA*

Treasury Department 106  
Division of Monetary Research

Date ..... April 10, 19 42

To: Secretary Morgenthau

From: Mr. White

There is attached the memorandum prepared by Dick Gilbert for Henderson.

The portions dealing with increased income because of higher wage rates are marked in red.

Treasury Department  
Division of Monetary Research

107

D

Date April 10, 1942 19

To: Mr. White  
From: Mr. Ullmann

Gilbert's memorandum points out that increased salaries and wages, due to increase in rates, rose by \$3½ billion in 1941, and might rise by \$4½ billion in 1942.

It should be noted that the \$3½ billion 1941 increase, due to higher wages, is only a 7 percent increase over the \$48.9 billion total salaries and wages paid out in 1940. This increase should be compared to the 10 percent increase in the cost of living which took place between December 1940, and December 1941.

Similarly, the wage rate increase of \$4½ billion which Gilbert feels might take place in 1942, would represent only a 7 percent increase over the total 41 salaries and wages. At the present time the cost of living is rising by 1 percent a month, or 12 percent a year.

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April 8, 1942

MEMORANDUM

To: Mr. Henderson  
From: Richard V. Gilbert  
Subject: Effect of Wage Freezes Upon Income Payments

(1) Between 1940 and 1941, total wages and salaries increased from \$48.9 billion to \$61.1 billion, or by \$12.2 billion. Of this increase, \$4.7 billion, or 38 percent, was due to increased employment. \$4.0 billion, or 33 percent, was due to increases in average hours per week, overtime and other special payments, and shifts in the composition of employment. The remaining \$3.5 billion, or 29 percent, was due to increases in wage rates.

(2) This year, we may expect another increase of about \$5 billion, due to increased employment arising from the fact that employment will increase by practically as much as in 1941 (2.6 million as against 2.7 million) and that average wages of newly employed workers are greater. We may expect a further increase of \$7 billion owing to increases in average hours per week, overtime, etc. Last year, average weekly hours increased by 2.5 in manufacturing industries. This year we may expect an increase of 4 hours per week, and since the total wages base is 20 percent bigger this will result in almost doubling the total increase in wages and salaries due to increased hours, shifts in the composition of employment, etc. In addition,

Mr. Henderson

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April 8, 1942

we may expect an increase of \$1 billion as a result of wage increases which have already occurred this year. A further increase of \$1 billion will result from increases in payments to soldiers. Adding these up gives a total increase of \$14 billion in wages and salaries already in the cards. This would be consistent with an increase of \$18 billion in total income payments, and would result in income payments of \$110 billion, as compared with \$92 billion last year, even if wages are frozen at existing levels.

(3) If further wage increases occur this spring comparable to those which occurred a year ago, their direct effect because of the higher total wage base would be to increase total wage and salary payments by about \$4.5 billion. Such payments, however, because of their inflationary effect on consumer buying, would increase prices and other incomes by roughly half again as much, or by another \$2.5 billion. Thus the direct and indirect effects of broad wage increases this year would be to increase income payments by \$7 billion and would result in total income payments of \$117 billion.

(4) The continuation of the recent accelerated trend of upward movement of income payments, which would imply a 2.5 percent per month increase during the first half of 1942 and 3 percent during the second half of the year, would also result in income payments of \$117 billion. If, however, wage rates are frozen at this time, the acceleration in

Mr. Henderson

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April 8, 1942.

the upward trend would be broken and, because of elimination of the \$7 billion effect of wage rate increases, the level of income payments for the year would average \$110 billion, which is an increase of about 1.5 percent per month. This calculation assumes that the other factors tending to increase wages and salaries would continue to operate, i.e., the 2.6 million increase in employment, the 4 hours increase in average work week in manufacturing industries, continuation of overtime payments, upgrading, and shifts in the composition of employment.

V.Perlo/cg



GENERAL COUNSEL  
TREASURY DEPARTMENT  
WASHINGTON

APR 10 1942

Secretary Morgenthau

Mr. Foley

Dr. Hansen's Compulsory Savings Plan may be summarized as follows:

1. A flat rate of 5 percent on net receipts of individuals in excess of a rate of \$500 per year for single persons and \$1,000 for married persons.

2. Net receipts are defined as all receipts in cash or its equivalent, less business expenses other than taxes.

3. Savings are to be deducted at the source, on the gross amount of wages and dividends due and refund of any excess is made at the end of the year. Savings of professional workers are computed on the basis of a quarterly declaration of income.

4. Bonds are to be non-transferable, bear interest which is to be payable after the war, can be used for collateral for loans in a few restricted cases, are to be redeemed either by periodic redemption starting

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immediately after the war, or by redemption beginning when administratively ordered, and can be cashed in hardship cases, e.g., an operation, loss by fire or theft. Interim certificates are to be used for savings less than the face amount of the bonds.

5. The machinery of the Bureau of Internal Revenue is to be used for collection. It is estimated that the 5 percent rate will yield from two and one-half billion to three billion dollars, and would require 35,000,000 returns.

S. H. F. L.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 10, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

You may wish to have these notes about a few radio matters in which you were interested:

1. Mr. Murray in New York believes he can get the Blue Network to broadcast the new Ballad for Americans with Paul Robeson as soloist and with the N.B.C. orchestra and chorus on the evening of May 17, "I Am An American Day". Robeson had previously agreed to sing the number for our recorded programs. If the May 17th plan is followed, we shall make a record at that time and distribute it later to our 759 radio stations.

2. The baby in the life boat will be recorded next Tuesday as the central part of one of our 15-minute programs.

3. Mr. Murray is sending a writer to Washington next week to get the facts about the loading of ships for Russia, so that he can build a program on this subject.

*F. K.*



## TREASURY DEPARTMENT

WASHINGTON

DEFENSE SAVINGS STAFF

April 10,  
1942

This Letter Was Mailed To

All Radio Stations:

In view of the fact that so many Americans insist upon calling our Bonds and Stamps War Bonds and War Stamps, and because this is a sharper name indicative of the spirit of our fighting people, we have decided to begin now to use the name War Bonds and War Stamps.

From now on, would you please refer to our Bonds and Stamps as War Bonds and War Stamps in your broadcasting activities.

Again, many thanks for your cooperation.

Sincerely yours,

*Vincent F. Callahan*

Vincent F. Callahan,  
Director of Radio and Press,  
Defense Savings Staff.

FOR DEFENSE



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 10, 1942

TO Ferdinand Kuhn, Jr.  
FROM Herbert Merillat

EDITORIAL OPINION  
ON THE HOME FRONT:  
A WELCOME TO WAR BONDS

The press has welcomed the switch from "Defense" Bonds to "War" Bonds, a change in name it has been suggesting for many weeks. The new designation, the editorial writers say, gives proper expression to the American revolt against a defensive state of mind. At the same time the press is worried over the March slump in Savings Bond sales. Many papers periodically urge their readers to buy more and more Bonds and point out that the January high of more than \$1 billion must become the monthly average if War Bonds are to play their allotted role in financing the war and curbing inflation. The decline of sales in March has called attention to the close relation of taxes to Bond purchases. To many commentators the recent trend indicates that too many people are using their spare change and accumulated savings to buy Bonds instead of systematically cutting normal spending and saving from current income.

Various plans to promote voluntary purchases have been taken up and boosted by the press. Payroll deductions, high pressure sales methods, overtime payments in Bonds -

all these have had a degree of support in the press. All agree that something must be done to raise the total of Bond sales. There is not yet, however, any widespread editorial demand for an American version of the Keynes "deferred pay" plan. It appears to be generally agreed that a voluntary Bond sales drive should be given a chance to prove itself before more drastic measures are adopted.

All in all, press sentiment favoring compulsory savings stands about where it did a year ago when the Keynes plan first aroused interest in this country. A few papers, both conservative and liberal, insist that the time has come to institute a compulsory savings plan. The list includes the Washington Post, the Minneapolis Star-Journal, the New York Post and the New Republic. Others see the plan as something which may soon become necessary, but the advocates of forced savings are very much in a minority. The press as a whole shows a positive preference for the voluntary method.

#### Excessive War Profits

The press is agreed that something must be done about excessive war profits. No section of the press, however, has a good word to say for the House proposal to limit profits on war contracts to 6 per cent of the cost of performance, or for the similar Senate Appropriations Committee plan to provide a sliding scale of profit

limits. Opposition to these plans, by the Treasury, WPB, and procurement services, has had a telling effect on the attitude of editorial writers. The best way to attack the excess profits problem, they say, is through taxation. Some see in the WPB proposal to require renegotiation of contracts a desirable complement to taxes as a means of keeping profits down.

In short, it is the consensus of editorial opinion that excess profits taxes, with tighter procurement policy and surveillance, are the best ways of preventing profiteering.

Editorial discussions of the excess profits problem are tied up with labor restrictions and price control. Charges of politics fly thick. The conservative press fears that Congress, alarmed by public demands for stern dealing with a few extreme examples of war profiteering, will slap on a hastily devised profit limit which will interfere with production and will not meet the problem of rising costs and wages. The liberal press, on the other hand, fears that Congress will enact a plausible but ineffective profit ceiling as sugar coating for restrictions on labor.

#### Sales Tax

The President's statement that he still opposes a sales tax and the C.I.O. stand against the measure failed to provoke much editorial discussion. A few papers continue

to campaign for a sales tax. The Seattle Times greeted with a red-letter banner headline the American Retail Federation's proposal of a 5 per cent retail sales tax. The majority of the press, however, is saying little on the subject, at least for the time being.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 10, 1942

TO Mr. Harold N. Graves

FROM Mr. Callahan

Subject: Progress Report from Defense Savings Staff

PAYROLL SAVINGS:

A total of 55,523 private concerns with 19,305,049 employees have the Payroll Savings Plan. This 19,305,049 represents 64% of the estimated 30,400,000 employees of private concerns in the United States, (which figure excludes agricultural employees, military personnel, employees of W. P. A., N.Y. A. and C. C. C. projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.)

Of the 4,400,000 persons employed by Federal, State and Local Governments, a total of 1,390,525 or 32 per cent now have the Plan available to them.

The Pledge Campaign

The revised list of starting dates for the Pledge Campaign is as follows.

Alabama	June 9	Montana	Going
Arizona	April 20	Nebraska	April 15
Arkansas	April 27 (tentative)	Nevada	April 13
N. Calif.	April 22 - do -	New Mexico	April 13
S. Calif.	April 22 - do -	New York	June
Colorado	April 6	N. Carolina	May 4
Connecticut	May 1	Oklahoma	Early May
Florida	April 16	Oregon	Completed
Georgia	May 3 (rural)	Pennsylvania	April 16
	May 10 (elsewhere)	S. Carolina	April 7 - 11
Idaho	April 13	S. Dakota	April 13
Illinois	May 11	Tennessee	May 3
Indiana	March 26	Texas	Going
Iowa	Clean-up planned	Utah	April 6
Kansas	May 4 (tentative)	Vermont	Apr. 12(tentative)

Louisiana	May 15	Virginia	March 31 &
Maryland	May 4		April 1
Massachusetts	April 20	Washington	May 3 (tentative)
Mississippi	May 19	Wisconsin	Going
		Wyoming	April 6

The War and Navy Departments and the Veterans Administration are conducting their own campaigns, and State Administrators have been requested to assist in these campaigns rather than to urge participation of these departments in our Pledge Campaign.

An auction of pies donated by housewives of Haskett County was held at Stigler, Oklahoma, as part of the Pledge Campaign, this week under the direction of the County Administrator. Over 100 pies were auctioned off, bringing the Bond Sales total to \$132,000. The first two pies brought \$50,000 and \$35,000 respectively, and were dedicated to the first two Haskell County boys to lose their lives in this war. One pie donated to General McArthur was sold for \$17,500.

EDUCATION AND LITERATURE DIVISIONS

This week the Education Division's publication, "A Program for Colleges," was mailed to college presidents throughout the country and to state administrators for the use of their local committees in college towns. A copy of the program is attached. It was published in response to a wide demand for such a policy-defining statement. College presidents, the Office of Education, and leading educational organizations were consulted during its preparation.

Briefly, it calls for the organization of

EDUCATION AND LITERATURE DIVISIONS (Continued)

faculty committees to stimulate payroll allotment among college professors and to incorporate War Savings information and viewpoints into courses in economics, sociology, home economics, public administration, etc. The faculty committees are also asked to help organize speakers' bureaus of students and professors who can explain War Savings at college and community meetings, and organize campus and community forums, round-tables and radio programs to stimulate further discussion of War Savings.

Student committees are also called for in the program to carry on the publicity and promotion of stamp and bond sales on the campus and in student organizations, and to make War Savings touch every student, not only those few who belong to social, political or intellectual organizations.

Women's Student Government Conference

The "Program for Colleges" was distributed this week at the Columbus, Ohio, conference of the Central Section of the presidents of Women's Student Government Associations. About 80 colleges were represented at the meeting, which was largely devoted to the role of the college woman in defense work--on campus and in her home community.

A War Savings play for high schools, "You Can Count on Us," is now being printed. Two handbooks, for speakers' bureaus and bankers' committees, are also being prepared.

EDUCATION AND LITERATURE DIVISIONS (Continued)

Attached is the magazine, JUNIOR SCHOLASTIC, which is distributed throughout public schools and Junior High Schools all over the country. Published in two editions, one for the teacher and one for the student, it has a circulation of almost 100,000.

The chief value of publicity in this media is its use by teachers in class-room study. The material on the front cover, and on pages 6 and 7, will not only be read in class but will be used in various teaching exercises. For typical questions see special insert following page 8.

In many instances the material in this magazine is also used for class projects. The space was obtained by the College Press Section.

NEWSREELS

The newsreel crews are now working in California, Louisiana, Mississippi, Tennessee, Texas and West Virginia.

COMMUNITY SING

A Lucy Monroe Community Sing is scheduled for Jackson, Miss., April 28.

MINUTE GIRLS

Jetsy Parker, national champion drum majorette, and Dorothy Schoemer, tap dancer, starlets from M-G.M's "Ship Ahoy", on tour for U. S. War Bonds and Stamps, are to appear in Minneapolis, Minn., Tuesday, April 14, and Madison Wis., Wednesday, April 15. They will stay on tour until enough is raised to buy a \$3,500,000 destroyer.

RALLIES

Carole Landis, Hollywood glamour girl; Major Gordon Hittenmark, popular WMAL announcer and commentator, and the U. S. Army Band entertained a large crowd on the north steps of U. S. Treasury Building on Army Day, April 6.

Edna Ferber, well known author; Raymond Massey, stage and screen star; Clem McCarthy, sportswriter and radio announcer, and Barry Wood, radio and stage star, are to appear in behalf of U. S. War Bonds and Stamps at a rally in Hartford, Conn., April 13. Hartford Committee expects to hit \$1,000,000 mark in Bond sales.

Fay Wray, stage and screen star, appeared at a rally for U. S. War Bonds and Stamps at Lancaster, Pa. on April 10.

BUSINESS PUBLICATIONS

Returns to date show that 576 business publications are using advertising release # 3 featuring the Pay Roll Savings Plan. The total circulation of these publications is 4,380,712.

FARM PUBLICATIONS

We released this week the first of a series of special advertising releases for farm publications. Proofs of this release ("Let's talk about Money and War") are attached. This was sent to 51 audited farm publications having a circulation in excess of 18,000,000 farm readers.

NEWSPAPER CARRIER BOYS

A special tabulation of sales by newspaper carrier boys for the four week period, March 7 - 14 - 21

and 28 shows that sales fell off in the March 14 and March 21 weeks. They began an upward turn again during the week of March 28.

The sales of 10¢ War Stamps by the carrier boys of 857 newspapers totalled 215,764,699 as of April 9. This is an increase in the number of 10 cent stamps sold during the week of April 2 to April 9 of \$11,365,982.

#### WOMEN'S ACTIVITIES

A ten point program devised for use of bond mention and women's organizations has been prepared by the women's division. This program will be distributed to all clubs and organizations through the nation.

#### DIRECT MAIL

Total sales through April 8 by direct mail amount \$26,406,501. Of this amount total sales in the last week were \$213,805.

#### RADIO

Forty-three nationally known personalities made broadcasts this week in behalf of bond and stamps purchases. These broadcasts were carried by the Blue Network, the Mutual Broadcasting System, the Columbia Broadcasting System and the National Broadcasting Company.

To date, 442 radio stations report they have

established Payroll Savings Plans for their employees. Of these 442 stations, 345 have 100 per cent membership.

More than 200 letters all of them highly favorable were received from radio stations who are using the transcribed series known as the "Treasury Star Parade."

#### PRESS

26 replies from prominent poets and authors advise that they will write special pieces for us which we requested from 48 nationally known writers. Additional replies are still being received: only three answered in the negative. Seven others promised to supply material later, being at the present unable to do the work because of previous professional commitments.

Among writers who have promised to do special pieces suitable for syndication over national press wire services are: Thomas Mann, Kathleen Norris, Stephen Vincent Benet, James Thurber, George Kaufman, Gilbert Seldes, Robert Nathan and Ogden Nash etc.

Attached are covers from some of the pulp cover magazines published by Columbia Publications in New York. All of them are carrying the Bond and Stamps emblems regularly on their covers.

Attached also is a page carrying a letter to the boys and girls of America from the Secretary. This page has been sent out in mat form to all comic book publishers

by Mr. M. G. Gaines, who is serving the Treasury as liaison officer with the comic book field. This page is scheduled to be published in all comic books on sale during the month of June.

As a result of the call on major magazine executives in all the publications controlled by the Curtis Publishing Company, the following cooperation has been promised us:

The Ladies Home Journal for May will carry a War Bonds cover.

The Saturday Evening Post for May will carry a War Bonds cover, a rough copy of which is attached.

The Country Gentleman and the other magazines named above have promised us regular editorials, special articles, cartoons, and War Bonds "angles," in all reader-budget stories.

The Ladies Home Journal plans to launch a prize contest promoting War Bond sales in September. This will be directed at all schools in the United States and the prizes will be bricks taken from Independence Hall during its recent remodelling. The Curtis Publishing Company's children's magazine, "Jack and Jill," has already inaugurated a regular program of War Stamp Promotion in all its editions.

In all publications, a desire was expressed for more specific information about the do's and don't of Bond buying; about the relationship of Bond buying to inflation

control; and about the cost of military equipment which is purchased with Bond money. This copy is now in preparation.

The circulation total of the publications of the Curtis Publishing Company is approximately 10,000,000, of which 3,500,000 is weekly, and the remainder on a monthly basis.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Eight Business Days of April, March and February 1942  
 (April 1-9, March 1-10, February 1-10)  
 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 over March	March over February	April over March	March over February
Series E - Post Offices	\$ 24,610	\$ 31,479	\$ 37,877	-\$ 6,869	-\$ 6,398	- 21.8%	- 16.9%
Series E - Banks	<u>73,315</u>	<u>90,244</u>	<u>145,421</u>	- <u>16,929</u>	- <u>55,177</u>	- <u>18.8</u>	- <u>37.9</u>
Series E - Total	97,925	121,724	183,298	- 23,799	- 61,574	- 19.6	- 33.6
Series F - Banks	12,332	16,663	25,315	- 4,331	- 8,652	- 26.0	- 34.2
Series G - Banks	<u>58,032</u>	<u>71,735</u>	<u>126,205</u>	- <u>13,703</u>	- <u>54,470</u>	- <u>19.1</u>	- <u>43.2</u>
Total	<u>\$168,289</u>	<u>\$210,121</u>	<u>\$334,818</u>	-\$ <u>41,832</u>	-\$ <u>124,697</u>	- <u>19.9%</u>	- <u>37.2%</u>

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

April 10, 1942.

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

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

## UNITED STATES SAVINGS BONDS

Daily Sales - 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
7	2,958	5,722	834	8,983	15,539	8,680	834	8,983	18,497
8	2,309	9,610	1,142	6,562	17,314	11,919	1,142	6,562	19,623
9	2,906	9,304	955	5,715	15,974	12,210	955	5,715	18,880
Total	\$ 24,610	\$ 73,315	\$ 12,332	\$ 58,032	\$143,680	\$ 97,925	\$ 12,332	\$ 58,032	\$168,289

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

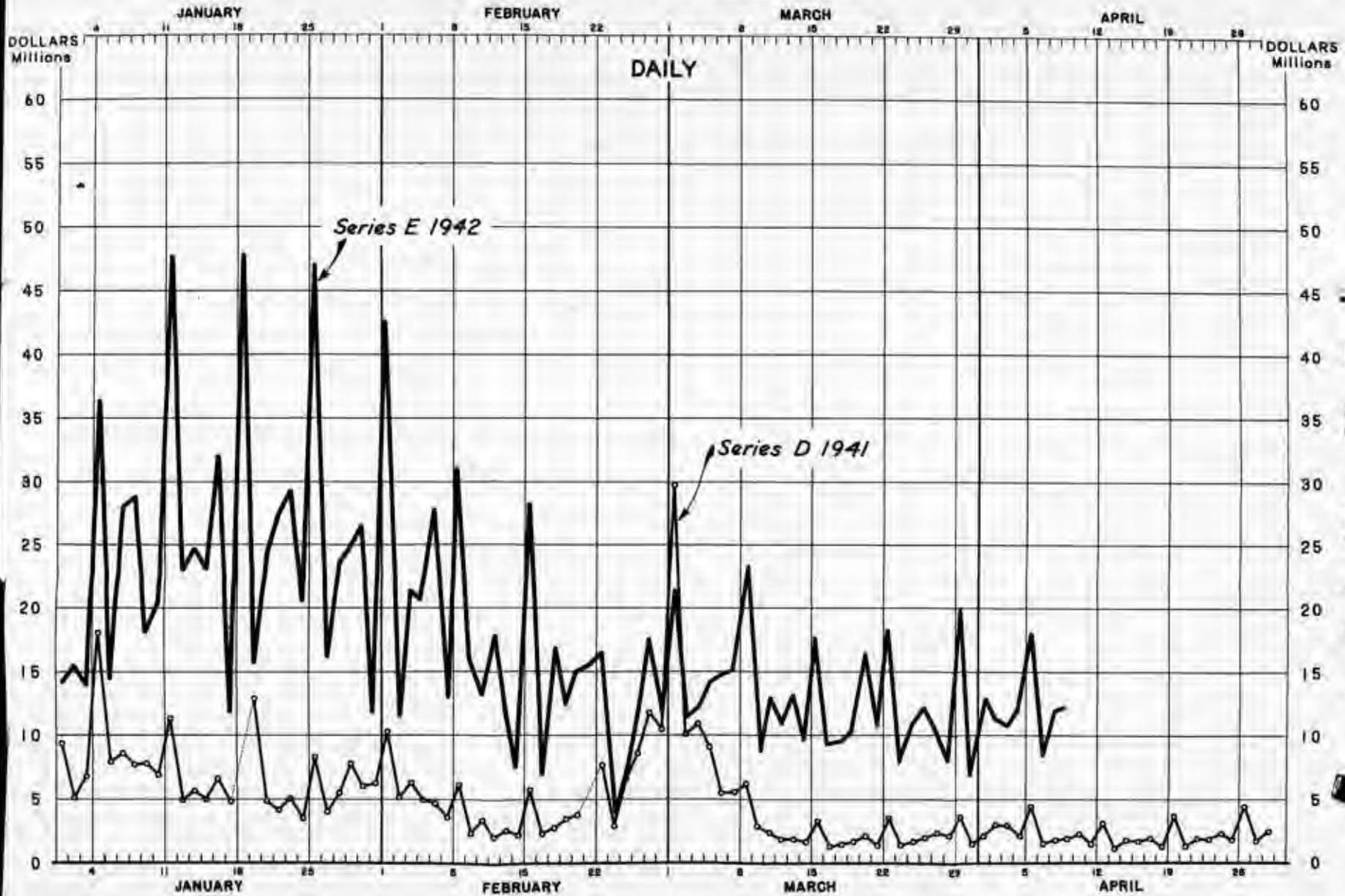
April 10, 1942.

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

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

# UNITED STATES SAVINGS BOND SALES

Series E 1942 and Series D 1941



Analysis of Exposure to Payroll Savings Plans  
April 4, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Large railroads.....	158	167	95
(2) Other firms with 500 employees or more.....	5,659	7,312	77
(3) Other firms with 100 to 499 employees.....	<u>14,297</u>	<u>26,836</u>	<u>53</u>
(4) Subtotal - large firms.....	20,114	34,315	59
(5) Firms with less than 100 employees.....	<u>35,409</u>	*	*
(6) Total business organizations.....	55,523	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>55,523</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Large railroads.....	1,273,260	*	*
(2) Other firms with 500 employees or more.....	14,078,371	*	*
(3) Other firms with 100 to 499 employees.....	<u>3,104,309</u>	*	*
(4) Subtotal - large firms.....	18,455,940	*	*
(5) Firms with less than 100 employees.....	<u>849,109</u>	*	*
(6) Total business organizations.....	<u>19,305,049</u>	<u>30,400,000</u> 1/	<u>64</u>
II. Governmental organizations			
(1) Federal Government.....	397,981	1,700,000 1/	23
(2) State and local governments.....	<u>992,544</u>	<u>2,700,000</u>	<u>37</u>
(3) Total governmental organizations.....	<u>1,390,525</u>	<u>4,400,000</u>	<u>32</u>
III. Grand total.....	<u>20,695,574</u>	<u>34,800,000</u> 1/	<u>59</u>

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

April 10, 1942

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

\* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans  
(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Jan. 10	Mar. 28	Apr. 4		Jan. 10	Mar. 28	Apr. 4
Alabama.....	17	125	137	285	6	44	48
Arizona.....	15	42	42	58	26	72	72
Arkansas.....	22	41	43	142	15	29	30
Northern California.....	160	492	501	501	32	98	100
Southern California.....	495	711	744	1,171	42	61	64
Colorado.....	64	112	112	170	38	66	66
Connecticut.....	100	267	276	622	16	43	44
Delaware.....	0	14	17	84	0	17	20
District of Columbia.....	8	46	50	152	5	30	33
Florida.....	48	140	143	143	34	98	100
Georgia.....	56	119	124	589	10	20	21
Idaho.....	19	30	30	50	38	60	60
Illinois.....	48	1,066	1,165	2,252	2	47	52
Indiana.....	0	394	400	586	0	67	68
Iowa.....	4	148	151	271	1	55	56
Kansas.....	114	275	275	275	41	100	100
Kentucky.....	75	116	120	312	24	37	38
Louisiana.....	0	162	167	384	0	42	43
Maine.....	3	56	59	198	2	28	30
Maryland.....	32	135	150	405	8	33	37
Massachusetts.....	53	586	604	1,523	3	38	40
Michigan.....	137	659	664	1,022	13	64	65
Minnesota.....	161	367	370	399	45	92	93
Mississippi.....	30	58	58	143	21	41	41
Missouri.....	0	440	452	664	0	66	68
Montana.....	22	38	39	39	56	97	100
Nebraska.....	6	91	97	123	5	74	79
Nevada.....	8	14	14	24	33	58	58
New Hampshire.....	7	79	80	145	5	54	55
New Jersey.....	171	364	391	869	20	42	45
New Mexico.....	12	33	33	35	34	94	94
New York.....	505	1,815	1,871	4,239	12	43	44
North Carolina.....	29	253	260	499	6	51	52
North Dakota.....	4	9	9	29	14	31	31
Ohio.....	0	1,004	1,062	1,739	0	58	61
Oklahoma.....	29	159	161	345	8	46	47
Oregon.....	21	182	187	271	8	67	69
Pennsylvania.....	713	1,591	1,612	2,032	35	78	79
Rhode Island.....	49	144	147	224	22	64	66
South Carolina.....	13	68	69	174	7	39	40
South Dakota.....	5	18	18	19	26	95	95
Tennessee.....	0	79	182	448	0	18	41
Texas.....	74	255	266	1,375	5	19	19
Utah.....	13	36	36*	111	12	32	32
Vermont.....	30	57	58	63	47	90	92
Virginia.....	31	248	258	338	9	73	76
Washington.....	71	226	227	323	22	70	70
West Virginia.....	0	81	85	272	0	30	31
Wisconsin.....	0	258	264	680	0	38	39
Wyoming.....	1	16	17	17	6	94	100
Alaska.....	0	2	2*	2	0	100	100
Railroads.....	46	49	49	52	88	94	94
Total.....	<u>3,541</u>	<u>13,770</u>	<u>14,346</u>	<u>26,888</u>	<u>13</u>	<u>51</u>	<u>53</u>

April 10, 1942

Office of the Secretary of the Treasury, Division of Research and Statistics.  
\*Data are for March 28, inasmuch as no April 4 report was received.

Regraded Unclassified

Firms Employing 500 Persons or More Participating in Payroll Savings Plans  
(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Jan. 10	Mar. 28	Apr. 4		Jan. 10	Mar. 28	Apr. 4
Alabama.....	9	49	50	76	12	64	66
Arizona.....	15	21	21	21	71	100	100
Arkansas.....	6	17	17	18	33	94	94
Northern California.....	114	158	160	196	58	81	82
Southern California.....	123	165	167	167	74	99	100
Colorado.....	22	26	26	32	69	81	81
Connecticut.....	97	150	151	185	52	81	82
Delaware.....	2	13	16	28	7	46	57
District of Columbia.....	12	29	29	52	23	56	56
Florida.....	18	35	35	66	27	53	53
Georgia.....	35	60	60	143	24	42	42
Idaho.....	8	10	10	10	80	100	100
Illinois.....	277	415	425	634	44	65	67
Indiana.....	41	127	133	180	23	71	74
Iowa.....	9	41	42	53	17	77	79
Kansas.....	16	33	33	33	48	100	100
Kentucky.....	19	43	45	70	27	61	64
Louisiana.....	0	37	38	85	0	44	45
Maine.....	42	54	54	54	78	100	100
Maryland.....	40	105	105	154	26	68	68
Massachusetts.....	41	277	280	370	11	75	76
Michigan.....	305	332	333	333	92	99	100
Minnesota.....	87	103	103	105	83	98	98
Mississippi.....	12	16	17	28	43	57	61
Missouri.....	0	154	157	157	0	98	100
Montana.....	4	5	5	5	80	100	100
Nebraska.....	28	37	40	41	68	90	98
Nevada.....	3	5	5	5	60	100	100
New Hampshire.....	17	30	30	30	57	100	100
New Jersey.....	185	241	242	242	76	99	100
New Mexico.....	5	6	6	6	83	100	100
New York.....	435	850	868	1,350	32	63	64
North Carolina.....	49	110	110	168	29	66	65
North Dakota.....	0	1	1	1	0	100	100
Ohio.....	285	502	507	557	51	90	91
Oklahoma.....	22	40	40	62	35	65	65
Oregon.....	51	70	70	70	73	100	100
Pennsylvania.....	336	564	572	625	54	90	92
Rhode Island.....	58	73	73	90	64	81	81
South Carolina.....	27	73	73	96	28	76	76
South Dakota.....	3	4	4	4	75	100	100
Tennessee.....	4	22	66	106	4	21	62
Texas.....	36	59	61	187	19	32	33
Utah.....	8	10	10*	14	57	71	71
Vermont.....	10	12	13	13	77	92	100
Virginia.....	41	96	99	99	41	97	100
Washington.....	44	63	64	74	59	85	86
West Virginia.....	2	43	43	67	3	64	64
Wisconsin.....	84	144	146	146	58	99	100
Wyoming.....	0	1	1	1	0	100	100
Alaska.....	0	3	3*	3	0	100	100
Railroads.....	98	109	109	115	85	95	95
Total.....	<u>3,185</u>	<u>5,643</u>	<u>5,768</u>	<u>7,427</u>	<u>43</u>	<u>76</u>	<u>78</u>

April 10, 1942

Office of the Secretary of the Treasury, Division of Research and Statistics.  
\* Data are for March 28, inasmuch as no April 4 report was received.

## MEMORANDUM FOR THE SECRETARY.

April 10, 1942.

Mail Report

The general tenor of the mail this week seemed a little more cheerful than that of previous weeks. There were fewer kicks and more expressions of loyalty and support in different aspects of the Government's program.

Financial contributions continue, and some of them are substantial. It is interesting to note that since his letter was abstracted some months ago, the contributor whose parentage was Mexican and Chinese, has continued to send in a \$200 gift each month.

The campaign against the sales tax continues, with 196 form postal cards, and a scattering of general comments. Among the latter, the proportion is 11 against to 6 for.

There have been fewer anti-labor letters, but more elicited by the Jack and Heintz incident. One postal card, on which is pasted an announcement that the head of the firm has been divorced by his wife, bears the typed comment, "Buy Defense Bonds - Help Betty Jack Get Alimony".

There continues to be much approval of the suggestions for exemption on medical expenses and for education. Disapproval of joint returns is also expressed, with no word of approval for this proposal.

There have been a number of letters approving payroll deduction at the source, and one against it. In fact, the general tenor is much more for the Administration's tax program than against it.

*J. F. Forbush*

- 1 -

General Comments on Present Emergency

J. F. Roberts, Secretary, Standard Pressed Steel Co., Jenkintown, Pa. We have been much concerned over the debate in Congress and the various proposals offered with substantial support about a ceiling on profits - in some instances to be not more than 6% on the invested capital. \* \* \* The top officers, as well as many other leaders in our organization, are men who are capable engineers and as a result, a great deal of research and experimental work has and is still being done to improve and economically manufacture products on which the highest priority rating has been given. Practically all of our orders have been received in competition where we have been the lowest bidder and where negotiated contracts have been received, they have been taken at or about the lowest figures quoted in previous competition. It is the desire of the management of this company to do the very best job possible. There is entire willingness, we feel that we should and it is our duty to pay substantial taxes. But our fairly large reserve funds set up previous to the war have in most part been spent and should the drastic proposals on taxation be enacted into law, and we do not curtail our capital expenditures, we feel certain we will wind up owing a substantial debt to the Govt. with insufficient liquid assets to pay the sum due. Therefore, we are in a quandary as to what to do. As already mentioned, we are anxious to do all we possibly can to aid the Defense Program, but in view of present uncertainty as to taxes, reasonable judgment would indicate considerable retrenchment in our present expansion program to avoid an over-extended position. \* \* \*

E.S.G., Providence, Rhode Island. This letter is personal. It could cost me my job. It is a comfort to have as Secretary of the Treasury a man that us citizens may feel free to address as I am now doing. \* \* \* This is no time to lay up for a rainy day, so that high salaries may be assured for the future. I am asking you in the name of winning the war, to prevent hoarding by Corporations through the activities of Directors and Financial Managers.

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J. Henry Thorpe, Treasurer, Cooley, Inc., Aristocrat Fabrics, Pawtucket, R.I. We are all, here at this plant, very much disturbed at a condition that apparently exists in the General Accounting Office in Washington. As you will note by the enclosed copies of letters taken from our files, we entered into a contract for the delivery of certain materials to the Government. Before placing the contract with the cotton mills for this material, an inspection was made of this mill's facilities for doing this work, and a sample was submitted and accepted by an Army official. \* \* \* All of this material, before it was shipped from the grey goods mill, was examined and shipped to the plant where our finishing is done; was again inspected before processing by a Government official; was inspected after processing by the same official; and on being notified, we made out our invoices which we mailed on to the proper authorities at Jeffersonville. Quite a number of shipments had been made before we were notified that the material was not satisfactory, and we were told to hold up. \* \* \* As a result, we were compelled to enter into a contract with another cotton mill to complete the order, although the material to be finished by the second mill was at a higher price (for which we did not seek any additional charge from the Government). \* \* \* We finally did receive a check for the first shipment, less certain deductions. In view of this Change Order A, we wrote to inquire why these deductions were made. Before we received a reply, a second check was received and deductions made, and finally a third check. \* \* \* It is in this General Accounting Office that we feel we have been given very unfair treatment, to express it mildly, in allowing this matter to drag along for so long a period of time. We are enclosing one or two letters from this department signed by W. Frank James, Jr., to whom we have written a number of times without any satisfaction, and finally, we have not had extended to us the courtesy of a reply to the writer's last letter. \* \* \* If you had time yourself to read the copies of these letters, I think you would be very much disgusted to learn of the dilatory tactics that have been employed in this whole matter so that we have not received the \$9,492.17, the amount deducted from these checks. It has given all of us a very peculiar feeling that there is some rank inefficiency, or something else that is so unexplainable that we feel that a most thorough investigation

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should be made. \* \* \* Under date of Sept. 25, 1941, we received a letter from your office, in answer to one addressed to your good self, from which we quote, "We are very much interested in your fine program of not only voting your employees a bonus of 10%, retroactive from October 1, 1940, 50% of which will be paid in cash and 50% in Defense Savings Bonds and Stamps sometime prior to December 1." We were, so far as the writer knows, the first concern in this vicinity to take this step, and our efforts to cooperate with the Government in every way have been the very best that one could put forth. \* \* \* We are considerably disturbed that our Government should hand out any such treatment as we have received, especially since we have to pay for our textile goods within 10 days, and then have the material waiting at the finishing plant before it is inspected, sometimes for several weeks. \* \* \*

Harry Cohen, Pittsburgh, Pa. Our Scripps Howard Press tells us that the Treasury Dept. is going to publicize their "Wake Up America" editorial. Knowing your own liberal attitude, I can't help feeling that someone slipped up. The editorial, as I see it, fixes responsibility for lag in War production almost exclusively on our Govt. and Labor. It is carefully worded to give industry almost a clean bill of health. The German Govt. must have laughed heartily when it got free distribution propaganda through the Congressional Record by means of Viereck, Lumdeen, et al. Will industry laugh the same way when the Treasury Dept. pays for the privilege of lambasting the present Administration?

S. C. Kelton, St. Davis, Pa. My salary was increased one thousand dollars per annum, beginning April 1, 1942. As I am too old to join the armed forces, I wish, until further notice, to send you each month a check representing the monthly increase. My check for \$83.33 is attached hereto.

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Paul R. Nestler, President, Green Lane Hosiery Co., Inc., Green Lane, Pa. We realize the financial burden brought on by the present war - and while silk, Nylon and Rayon is no longer obtainable, we still have a little English yarn to knit for Ladies Hosiery. We have only 45 people on our payroll now - just half of the quota employed last September. However, we all want to do our bit towards achieving Victory, and I am enclosing a check for \$311.35 representing a day's work from each employee, and the amount of \$811.65 is our donation. When our employees discussed their desire for the privilege of this opportunity, I mentioned that we would match their figure. I know there are many demands and we all thought by mailing the check to you direct - there would be no delay in its application. Total \$623.00.

Troop "29" Boy Scouts of America, Brownville, Texas, send in your care the attached Defense Savings Bond, payable to General Douglas MacArthur for the use as explained in our letter to the General. We ask that you forward our letter to General MacArthur in your own official way, and if it is advisable to retain the Bond in your office for the "duration" you may do so. (Letter to General MacArthur reads as follows) Troop "29" wishes to send to you a small starter for a fund to be used by you to help the widows and children of the casualties in Bataan, or anywhere else you so desire. They earned the money to buy the Defense Saving Bond (\$25.00) through the waste paper collection campaign, and it is the desire of the entire Troop that the money be used in the above way. Certainly a man who has the admiration of the youngsters as you have, must win.

Theo. W. R. van Loo, Grand Rapids, Mich. Whereas I noticed that your son enlisted in the Army or Navy some months ago, therefore, I congratulate you, the Hon. Secretary of the Treasury and Mrs. Morgenthau, with said act of your son. May his life be spared from harm and danger now and in the future. Please excuse the late sending of this message. Please excuse the use of a pencil. The grippe held me for more than a month - I wish it would leave.

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Mr. Frank Zika, Chicago, Ill. Enclosed herewith please find check, for the sum of \$100. This contribution comes from a group of people who meet occasionally at a local restaurant and tavern in Chicago. By denying themselves a few things each week, they are able to put their nickels, dimes and quarters into a contribution box. \* \* \* These people are of Czech extraction, all American citizens, very patriotic, and have named their little organization the "FIRST BATALLION". They feel that you know best, as to where the Government could use the money to the greatest advantage. When so advised, they intend to give more in the future.

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Favorable Comments on Bonds

Ursula Kugel, Racine, Wis. \* \* \* I have a son in the service - "foreign service". At present he is serving in Trinidad. Every month he sends money home for a bond, and as he is only a private as yet, I think that is doing pretty good. \* \* \* Celebrities conducting sales campaigns are wonderful, but men in the service buying bonds are greater.

E. C. Denton, Springfield, Ohio. Your telegram received this day is of the greatest possible interest. \* \* \* First, we are supporting the Payroll Savings Plan to the fullest extent and in compliance with your request, we will forward the information desired. You may depend on our continued cooperation. \* \* \* Second, your telegram re: the certificates of indebtedness finds both the company in a bit of an embarrassing situation; so much so that our participation cannot possibly be comparable to that of the first World War. The three companies doing business at that time subscribed for approximately \$200,000.00 worth of Liberty Bonds. However, due to the fact that the Internal Revenue Division, by most technical reasoning, have seen fit to classify our small business as a "personal holding company", thereby penalizing the business as to an additional or an extra-ordinary deficiency assessment of approximately \$150,000.00, which, after considerable struggle, was paid only yesterday, obviously, this has taken from us the where-with-all to do our full part. (Encloses correspondence with Internal Revenue.) \* \* \* You might be interested to the extent of having one of your assistants review this matter, which the writer feels is an unfair and unwarranted conclusion. Naturally, the above matter notwithstanding, we shall do our utmost to be helpful to our cause, and in the last analysis, whatever it may be, even though a pittance, please bear with us for we will do the best we can under the extremely difficult circumstances.

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Charles V. Richey, Dayton, Ohio. While this new drive is on for Bonds and Stamps, and I have worked in a Post Office for 32 years, and I have my work and my Government at heart, in checking our Postal Savings accounts, I find that 28% of our accounts have less than \$18 in their account, or less than a small Bond. I am just wondering if a nicely worded letter to these patrons, from your Dept., to take this money and buy Defense Stamps, would not be a wise move. I feel quite sure that this would bring in a lot of extra money, as this money at our particular Station is in most cases lying dormant. Quite a large percentage have only \$1 to their credit, and I am assuming that other offices would figure the same all over the United States. This would be a big boost to our Bond sales.

Antonio Panico, Brooklyn, N.Y. When our country went into war, I was working on W.P.A., and as I'm old - 57 - I couldn't go to the Army. So I tried to do my part in different way. So in January I bought the first Defense Bond for \$18.75. Later I bought another one, but when the W.P.A. learned that I was buying Defense Bonds, they sent me the pink slip -- knocked me off the job saying this: If I can buy Defense Bonds, I no need W.P.A. Now I'm home - walking up and down - I can't find any job. I feel very sorry if I'm forced to sell my Bonds -- please let me have my job back. \* \* \*

Unfavorable Comments on Bonds

Herbert Bowerman, San Mateo, Calif. According to the newspapers, the sale of Defense Bonds is not as large as it should be. This is depressing news. Evidently the people believe that too much money is being spent for boondoggling. \* \* \* If the Senators and Congressmen could interview the storekeepers in California towns, and the sales girls in the large dry-goods stores of San Francisco, many of whom have paid an income tax for the first time, they would learn what the people have in mind about non-defense expenditures. However, no one appears to object to defense spending. The war must be won and therefore Defense Bonds must be sold. Everyone in Washington should work to this end by appropriating money only for defense expenditures and for only absolutely necessary non-defense expenditures.

Henry Henning, Jr., Brooklyn, N.Y. Our company and our officers have bought and are buying Defense Bonds, and would be in a position to buy additional bonds if they were transferable or if they could be used as collateral for a loan. In our business we very often have cash available which is not used for possibly several months, and again there are times during the year when it is necessary to have additional cash for the business. \* \* \* If we could use these bonds as collateral for a loan to help us over the time when we need additional funds, we could use some of this cash to purchase more bonds. \* \* \* Also, a number of people, who have purchased bonds and who have since turned them in for cash, would be able to hold these bonds until maturity if it were possible for them to borrow temporarily the funds which they require, which would greatly reduce the turnover of these bonds.

L. O. Crosby, Picaune, Miss. I am wondering, as I believe many others are, what percentage of the wages paid in the large manufacturing centers, where over-time is paid for at the rate of time and half-time and double time for holidays, is going back into the Treasury through the investment of Defense Bonds and Stamps. \* \* \* We made a check-up with the local Post Office here today and find that the purchase of Govt. securities through this office has fallen off from the month of January. We are just wondering if this is true in other sections of the country, and what we may do beyond what we have in mind doing, which is to hold mass meetings along with the laborers and undertake to get information into the weekly papers that will kindle patriotism and cause wage earners to come through with more liberal purchases of these securities. As far as we can check the running time, it was as good in March, or possibly a little better than in previous months. Wages in some instances have been raised, and only a very slight raise in the merchandise which it was necessary for them to purchase.

Mrs. H. A. Harvey, Young Womens Christian Association, Batavia, N. Y. If the whole country is organized as New York State is, you must have a very efficient Defense Savings Staff, but I can assure you you will lose half of it if the Post Office Department doesn't stop hamstringing us with red tape. I am not just blowing off steam. I am one of the Women's Vice Chairmen, (Genesee Co., N.Y.). Probably I am the busiest woman in my community, and the same could undoubtedly be said of most of the Defense Savings Staff. We are the kind that always get picked for such jobs. And we are more than glad to serve, but we just don't have time for unnecessary trimmings. I am enclosing the latest order as a sample. \* \* \* (Refers to announcement in regard to franking privilege.) Now, can you tell me who gains what by my signing my name to a letter and then countersigning it with some other person's name? If I weren't so busy selling Defense Bonds I'd calculate the man hours utterly wasted by that perfectly asinine maneuver. I can't imagine any volunteer worker trying to cheat her country by illegal use of the frank, but if she were so inclined, just how would countersigning her own signature stop her? We've got a big job to do. For Heaven's sake let us do it!

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O. A. Fulkerson, O'Brien Varnish Co., South Bend, Ind. The amount of money held by employers, deducted from payrolls for the purpose of buying Defense Bonds, runs into an enormous sum, and in some cases it is nineteen weeks before the Government gets the benefit of the use of this money. In order to make this money available immediately for the use of the Government, the writer suggests that all payroll deductions be paid immediately to the Postmaster, and receive credit for it, and afterwards issue orders against this amount for the issuance of the Bond. This firm now has this plan in operation with our local Postmaster. It not only puts the money in the hands of the Government immediately, but it takes it out of the hands of the employer and also makes sure that the Government is going to get it.

A. Bruckner, Payable Division, Emerson Radio and Phonograph Corp., N.Y.C. \* \* \* At this date we have accumulated \$5,000 from payroll deductions. This money is deposited in the bank and is not serving any purpose at the present time. I assume that this is true of any organization which has the same plan in effect as we, with the exception that the larger the organization, the greater the balance. I would like to offer the following suggestion. If a concern purchases blank bonds, when an employee becomes eligible for a bond, the proper entries are recorded - the bond which is given to the employee will bear the date when it is actually issued to him, and the Government will be advised accordingly. In this manner the Government will have use of the money at a much earlier date, and will save the interest between the date of the issuance to the concern and the employee. With the plan you now have in effect, the concern purchases blank bonds for employees who are eligible at that time. What I have in mind is for the concern to purchase these bonds in advance.

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Mrs. George Woodward, Jr., Chestnut Hill, Philadelphia. Representing the average citizen, I started buying Defense Bonds last August, and it is most discouraging to receive at the beginning of the shortage of essential household paper products, the first and I hope last, copy of "Our America". It contains nothing that is not covered daily by press and radio. It is written too well to reach the ignorant and it is not necessary as a medium to convince the supposedly thinking middle-class. Most disheartening to see the Government appropriating so much paper when the public must cut down to less than the minimum requirement. \* \* \* There is a possibility that the Facts and Figures Bureau might find that the cost of this periodical, "Our America", might build a machine gun. \* \* \*

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Favorable Comments on Taxation

Mrs. Harry Frederick Jackson, Washington, D. C. A member of the League of Women Voters who attended the hearing of the Tax Committee reported that some one said, "Every one who comes here represents a group which wants to protect itself and have the burden fall on some other part of the population. I wish someone would appear who would be for our proposals". Well, here are two people - old, retired on a limited income derived from our savings only, but who believe in higher income taxes, a broader base, joint returns - any fair plan that takes from us who have enjoyed and prospered in this country of ours. If labor wants to cling to its hard won privileges, industry to its profits, and women to their "rights", then what sort of a land are our men fighting for? \* \* \* We are the inarticulate, Mr. Secretary, for we have no pressure group to speak for us. But we know the Government needs money and borrowing, to our way of thinking (great bond issues) is only a last resort. \* \* \* Please introduce into the hearings Mr. Drucher's article, "How to Pay for the War", in the March Harpers. It represents our sentiments - my husband's and mine.

J. R. Everhardy, Los Angeles, Calif. Perhaps if you receive enough letters from enough people, you will be able to get a cross-section of public opinion on the tax question. Now in my case, I have one son in the Army, and another will be inducted on April 6th. I have a wife, and a daughter who will be 18 years of age in June, and this will cancel my \$400 exemption on my 1942 income. I paid \$70 last year, but expect to do better business this coming year. I know the Government needs money and more money - more money than was ever needed in the history of mankind, to exterminate those filthy German lice and their bootlicking "me too" virus. So use your influence with the Big Boss to "Lay on McDuff and don't spare the horses".

Hector Lazo, President, Cooperative Food Distributors of America, Washington, D.C. \* \* \* We have established what is known as "Taxes to Beat the Axis" clubs. Under this plan, retail merchants buying from a wholesaler or from their retailer-owned wholesale houses, will have added by the wholesale house, a 1% Taxes to Beat the Axis" charge with every invoice. This money is deposited in a chosen bank, operating similarly to building clubs, and will be retained there until a sufficient amount is on hand to purchase a Tax Anticipation Warrant, or until enough money is on hand to pay the entire taxes to be raised next year. Of course, additions may be made at any time other than through the invoice charge. \* \* \*

J. DeWitt Mills, St. Louis, Mo. \* \* \* All three suggestions impress me as quite fair and reasonable at this time. I congratulate the Treasury Department upon its initiative in the matter. I am particularly aware of the burden caused by the present elimination as a deduction of dependent children who enter college at the age of 18. The handicap imposed by the present operation should certainly be removed and thus lend encouragement to the continuing education of these youngsters who we hope will be able to contribute something to the improvement of humanity's present plight. \* \* \*

Charles C. Hewitt, Insurance, Boston, Mass. First, let me say that I think you are doing a fine job, and I am grateful as a citizen to you for your tireless efforts to solve the toughest financial problems that ever faced a Secretary of the Treasury. I offer some suggestions that I hope are constructive: (1) Sales tax. (2) Can't we try to get people to realize that there is some use of working hard in spite of the vigorously ever-rising income taxes? Can't we get it into their minds that the more they earn the more they help to pay this war bill? Perhaps if we let them work hard and earn and retain more, and then take it away from them through sales taxes, they would be happier. (3) Have we considered allowing life insurance premium deduction and having heavier death duties like the British do where personal life insurance exceeds \$40,000? Most big life insurance carriers like myself are "in the valley of the shadow" and the revenue on death duties could be heavy. \* \* \*

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R. B. Nunive, Galveston, Texas. I would like to make the following suggestion, which I make in all sincerity - that is, for your Dept. to secure the Social Security tax to my credit, and all taxes which may be credited to me in the future, and use it as you may see fit for the defense of our COUNTRY. I feel that this money will be of a lot more use in the hands of the Treasury Dept. than accumulating in my favor. I believe we should all do whatever we can, and do it NOW, for the real security in the future lies in the victory which will be ours at the end, but which we must all help attain. For what social, or for that matter, any other security could we hope for in our old age if in the hands of any other power? I know millions of other Americans feel as I do, and the accumulation may prove of some value to our country now, in the time of need.

Edward E. Hibshman, Cleveland, Ohio. Due to income taxes being paid by an ever-widening circle of individuals, I think it might be a good idea to make it legal for checks or money orders to be made out to "Uncle Sam" instead of to the "Collector of Internal Revenue". "Uncle Sam" is relatively warm, human, dramatic, whereas that titular individual known as the Collector of Internal Revenue could hardly be described as popular. Psychologically, it may result in a slight increase in tax payments. I, for one - and many of my friends have agreed we'd get a lift out of addressing income tax checks to "Uncle Sam".

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Unfavorable Comments on Taxation

Otto L. Anderson, Ketchikan, Alaska. (Telegram) For thirty years I have protested, I have insisted, and now I demand that you eliminate the practice of separate returns in States where community property laws prevail. I want you to see my return this last year and insist, insist, on seeing original handwritten letter and attached sheets filed Tacoma, Washington.

Frank Garland, President, Pewee Coal Company, Knoxville, Tenn. My tax problem is small but nevertheless vital to me, and, in view of the information I have concerning the desire of your Department to assist small businesses, I am writing you for advice. Our company is a new one, having been in existence only a couple of years, and we have spent approximately \$200,000 in developing a coal mine in Tennessee. This mine has been in production a little over a year, and we have just managed to break even during that time. We have found it necessary to borrow \$40,000 from local banks to complete our construction and equipment program -- \$2,000 of this has been repaid. \* \* \* The pertinent problem is how to repay the borrowed money, and likewise pay up the balance on equipment, which we are liquidating at about \$2,000 per month, without getting my finances in a critical condition when it becomes necessary to pay income tax next year. \* \* \* The point is that we will have to pay income tax on the profit, but this money will have to be paid to our creditors. \* \* \* It might be the best policy to shut the mine down and freeze this situation until we could see daylight ahead in the direction of paying our creditors, and at the same time effecting settlements with your Department. Undoubtedly you have numerous problems along this same line and can offer, I am sure, some constructive suggestion which we shall be pleased to have.

APR 10 1942

Dear Mr. Smith:

This will acknowledge receipt of your letter of April 3, 1942, with which you transmitted a copy of a letter to the Postmaster General and two memoranda recommending increased postal rates on third class mail and on air mail, respectively.

It seems to me that the rate increases proposed in the memoranda are well advised both from a fiscal point of view and from the point of view of conserving necessary materials for more essential uses.

Very truly yours,

Herbert H. Brown

Secretary of the Treasury.

Honorable Harold D. Smith, Director,  
Bureau of the Budget,  
Executive Office of the President,  
Washington, D. C.

By Messenger

Simmons 5:25

HCM:ma 4/9/42

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D. C.

34871

APR 3 1942

My dear Mr. Secretary:

I am enclosing for your consideration copies of a letter and two accompanying memoranda which have been sent to the Postmaster General regarding proposed increases in third-class and air mail postal rates.

If you have any comments on the proposals I should appreciate an expression of your views.

Yours sincerely,

*Harold G. Smith*  
Director

The Honorable

The Secretary of the Treasury

Enclosures

My dear Mr. Postmaster General:

Here war expenditures by the Federal Government require a great increase in revenues. Because of the need for additional funds, careful consideration should be given to means for increasing revenues from present Federal sources as well as methods for tapping new sources. Revenue, however, is not the sole consideration in determining whether a particular tax, rate, or fee should be increased. As the President said in his Budget Message, "The present task definitely requires enactment of a well-balanced program which takes account of revenue requirements, equity, and economic necessities."

In harmony with this objective, it has been suggested that the postal rates for certain types of third-class mail and the rates for air mail should be increased in the present emergency.

The two memoranda attached to this letter discuss such suggestions in specific terms. In the memorandum on third-class mail rates, the proposal is to increase the rates on advertising material, except catalogs, both for bulk-lot mailings and for material sent at the ounce rates. The proposal in the memorandum on air mail is to increase the rate from 6 cents per ounce to 8 cents per ounce for domestic mail on the mainland and to revise other air-mail rates to correspond where necessary.

The proposed increases, according to the memoranda, may yield additional revenues in the fiscal year 1943 of the order of magnitude of \$40 million. In these memoranda no changes in the rates and fees for other postal services are suggested.

I should appreciate your examination of the proposals contained in the two memoranda and an expression of your views. If you believe that under the present pressing need for increased Federal revenue it would be desirable to increase the rates for other classes of mail or the fees for postal services, I should be grateful for a statement of your opinions.

Sincerely yours,

D. SMITH

Director.

The Honorable  
The Postmaster General

Enclosures

### PROPOSED INCREASES IN THIRD-CLASS MAIL RATES

For some time the Federal Government has subsidized matter sent through the mails at third-class rates. In the fiscal year 1941, the Post Office Department incurred a deficiency of \$22 million from third-class mail, which is largely advertising matter. In accordance with the need for additional revenue in the present emergency, third-class mail rates applying to direct-mail advertising should be increased.

#### Proposed increases in third-class rates

Third-class matter embraces "printed matter on paper not having the nature of an actual personal correspondence (except newspapers and periodicals admitted to the second class)," proofsheets, and merchandise, all when sent in packages weighing 8 ounces or less. The third-class rate structure is a rather complex one, including special rates on catalogs, books, seeds, and matter for the blind, but the rates of particular interest here are the following:

"Bulk lots of identical pieces of third-class matter may be mailed under permit \* \* \* in quantities of not less than 20 pounds or 200 pieces, at the rate \* \* \* of 12 cents a pound or fraction thereof, \* \* \* provided, that in no case shall the postage be less than 1 cent a piece." It is under this rate that most direct-mail advertising is carried, and the matter carried under this rate is predominantly direct-mail advertising. Some advertising matter also is carried at the ounce rate for individual pieces of "12 cents for each ounce or fraction thereof."

The proposal is to set up a new classification within the third class for all matter, except newspapers, which now goes at the rate of 12 cents per pound or fraction thereof in bulk lots, and at 1 cent per 2 ounces when sent as individual pieces. The new classification would include advertising circulars. For this new classification the bulk lot rates would be made higher than at present, and the ounce rates for individual pieces would be increased for out-of-town mailings. Bulk lot rates would be made inapplicable to mailings for local delivery.

Proposed Changes in Third-Class Postal Rates

<u>Bulk-lots — identical pieces</u> (except books, seeds, catalogs)	<u>Present rate</u> (cents)	<u>Proposed rate</u> (except for merchandise) (cents)
Per pound mailed		
out-of-town	12	20
local	12	no bulk-lot rate
Minimum per piece		
out-of-town		
2 ounces or less	1	2
over 2 ounces	1	3
local	1	no bulk-lot rate
<u>Individual pieces</u> (except books, seeds, catalogs)		
Per 2 ounces or less		
out-of-town	14	24
local	14	14

The suggested increases would not affect present rates on catalogs, books, seeds, matter for the blind, or merchandise. The innovation of a differentially lower rate for local delivery of the third-class matter is suggested to prevent the diversion of the matter to first-class mail which would occur if the rate were made the same as for out-of-town mailings, or 20 cents per 2 ounces. If diverted to first-class the matter would require the special handling and prior treatment accorded first-class mail.

The suggestion that bulk-lot rates should not apply to local delivery is made since the bulk-lot rates apply to pieces as much handling as individually mailed pieces. Thus, on the ground of cost there seems little justification for bulk-lot rates for local mailings. Minimum rates dependent on the weight of the individual pieces in bulk lots are suggested to maintain out-of-town rates above local rates in the proposed schedule.

At present the rate on individual pieces of 14 cents per 2 ounces is equivalent to the bulk-lot rate of 12 cents per pound. This relation is maintained for the out-of-town rates proposed here, since 24 cents per 2 ounces is equivalent to 24 cents per pound. The magnitude of the increase proposed is based on the belief that this type of mail not only should not be subsidized but that it should yield a surplus above the full costs allocated to it.

Revenue from the increase  
in rates

A rough estimate of the increase in revenue from the proposed increases in third-class rates indicates that in the neighborhood of \$40 million of additional net revenue may be obtained in the fiscal year 1943. The calculations indicate that under the assumptions used the increased rates would change the third-class deficiency of \$17 million for fiscal 1943 to a surplus of \$13 million when costs are allocated fully, as is done in the Cost Ascertainment Report.

Developments in recent months indicate that direct-mail advertising will decrease in fiscal 1943 because of shortages of paper and ink used in manufacturing the material and shortages of goods to advertise. The present calculations are based on the assumption that these shortages will cause a 20 percent decrease in the volume of third-class mail in the fiscal year 1943 as compared with fiscal 1942. Because of the decrease in supplies of materials for producing third-class matter, it is believed that the suggested increase in rates will not decrease the volume of third-class mail more than would occur otherwise. The estimate is based on this assumption.

Cases of previous experience of the Post Office Department with increases in postal rates often are not applicable to the present situation. At the present time, national income is rising rapidly. Any cases of a falling off of postal volume or revenue when rates were increased in a period of depression or of moderate business activity would not be relevant to the boom conditions of today.

Administrative aspects

The proposals provide for the setting up of a new classification for matter in the third class and for the creation of a differentially lower local rate. These proposals would not add appreciably to the present complexities of the classification and rate structure, and should cause little difficulty in administration by the Post Office. The users of third-class rates for bulk-lot mailings would not be inconvenienced by the changes, since the present regulations require a separation of the mailings according to destination.

The revenue from the increased rates would be collected in the ordinary manner and would not be segregated in any way from other postal revenues. The increased revenue would serve to decrease the postal deficit or to yield a greater surplus.

Effects of the  
increase in rates

It seems probable that the proposed increase in rates would not divert much of the affected third-class mail to other classes of mail or to other forms of delivery. Some diversion to first class might occur for individual pieces weighing less than one ounce. The diversion to other forms of delivery probably would not be large and in the immediate future would be less than actual due to shortages of trucks, tires, and manpower for providing other means of delivery.

While it is believed that the proposed increase in rates would not cause a decrease in the volume of third-class mail beyond that caused by shortage of materials, a decrease in the volume of direct-mail advertising, if it should occur, would have several desirable consequences. The machinery, zinc, ink, materials, paper, and transportation used to produce the advertising material could be turned to war production. Also, without the advertising the demand for goods advertised by direct mail would be lower, thus decreasing the inflationary pressure and increasing the volume of saving. Finally, this decreased demand for the goods also would decrease the demand for parcel post and money orders and thus free for war production some of the increased manpower, materials, and transportation which the Post Office otherwise will require in the immediate future.

Differential rate on pieces  
requiring special handling

The Post Office Department has indicated that a differentially higher rate on large or unusually shaped pieces of third-class mail which are difficult to handle in the usual way would help the Post Office greatly. It would be desirable to discriminate against such mail, and the Post Office perhaps could formulate a method for classifying such mail in order to apply higher rates to it.

Increase in other  
postal rates

At present it seems likely that an increase in the other postal rates, except air mail, would not be desirable. The increases proposed for third-class mail are consistent with the war program. Increases in the rates or fees for other postal services, except air mail, however, might interfere at present with the part in the necessary services of communication, transportation, education, and information performed by the Post Office.

PROPOSED INCREASE IN AIR MAIL POSTAGE RATES

A main consideration, in addition to the revenue aspect, in increasing present rates of postage for air mail is to decrease the rise in volume of air mail which will occur without a rate increase. Since the capacity of air lines probably will not increase during the fiscal year 1943, while the demand for air services will increase appreciably, it will be necessary to restrict demand in some fashion. The recent announcement of removal of 25 transport planes from commercial service in the Army indicates how serious the problem may become. Unless the increase in the use of air mail which seems likely for fiscal 1943 is prevented, the passenger-carrying capacity of the airlines may be reduced. The airlines could extend the present system of partial rationing for passenger space. However, this might mean that necessary passenger travel would be prevented in order to permit the transportation of some less necessary air mail.

The present proposals of the Treasury for new tax legislation contain suggestions for tax changes in excise taxes which also affect both air-passenger travel and air mail volume. The proposed increase in the tax on commercial transportation of persons from the 5 percent present rate to 15 percent for fares and 20 percent for berths and seats might lessen the incentives in air travel somewhat. Since the increased tax rate applies to all commercial forms of passenger transportation, however, the increasing demand for air travel probably would not be affected greatly, for no tax-free substitute is easily available.

The Treasury proposal to increase the excise tax on telegraph messages from the present rate of 10 percent to 15 percent and on long-distance telephone calls with toll charges to 25 percent to 30 percent to 35 percent would tend to divert some of the demand for air mail under present rates. This diversion to air mail would be in addition to the increase in use of air mail resulting from the rising volume of national income.

Proposed Increase  
in Air Mail Rate

In view of the increase in demand for air mail and the present emergency need to increase the national revenue, it is suggested that the rate for first-class air mail be increased to 15 cents. The proposal is to increase the rate from that of 10 cents to 15 cents.

per tonnage for domestic air mail between points on the mainland.

Such an increase in the rate for the domestic mainland service may require increases in certain other domestic and foreign air mail rates to prevent inconsistencies in the total rate structure.

Revenue from the  
increase in rate

Assuming that the increase in rates proposed for domestic air mail would be just sufficient to prevent the diversion from telephone and telegraph and also to prevent the increase in use of air mail due to the rising national income, the suggested increase of one-third in the air mail rate would yield on the order of \$10 million of additional revenue in the fiscal year 1943.

This increase in revenue from domestic air mail should enable the service to yield a surplus above the full costs allocated to it under the present system of payments to airlines. The air mail service now is operating at a deficit, according to the Cost Ascertainment Report of the Post Office Department, which shows the following allocations to domestic air mail for fiscal 1941:

	(thousand dollars)
Post Office service (salaries for clerks, carriers, postmasters; rents, etc.) . . . . .	5,601
Contract air mail service . . . . .	20,395
Other transportation . . . . .	1,564
Railway mail service . . . . .	1,599
Rural delivery . . . . .	221
General overhead . . . . .	370
Miscellaneous . . . . .	132
Total expenditures . . . . .	30,882
Total revenues . . . . .	23,921
Deficit . . . . .	6,961

Estimates in the Budget for 1943 place the air mail deficit at \$6.84 million in fiscal 1942, and \$6.61 million in fiscal 1943. Under the above assumptions, the increased revenue from the proposed

increase in rates should be sufficient to wipe out the deficiency from air mail.

Considerations related to  
the proposed increase

1. The actual increase in air mail receipts over the preceding year was 25 percent in the fiscal year 1941 and 17 percent in fiscal 1940. Recent events indicate that the relevant economic conditions in the immediate future will be similar to those of these past years. Under this assumption an increase in demand for air mail service of the order of 25 percent in the fiscal year 1943 over the preceding year could be expected. The diversion of messages from telephone and telegraph to air mail under the increased excise taxes proposed by the Treasury may be equal to 5 percent of fiscal 1942 air mail volume. Demand for air mail service in fiscal 1943 thus may be 30 percent higher than in fiscal 1942.
2. Passenger business is the major factor insofar as pressure on available airline facilities is concerned. Counting ten passenger-miles to the ton-mile, major classes of traffic in the fiscal year 1941 were as follows:

Revenue passenger ton-miles . . . . .	118,713,372
Mail ton-miles . . . . .	11,318,107
Express ton-miles . . . . .	4,156,867

Although the volume of passenger travel in ton-miles is about ten times that of air mail, the passenger travel can be restricted in a selective way. All air passenger travel can be rationed so that only the more necessary travel is permitted. It would be almost impossible to ration the use of air mail, however, to necessary uses. An increase in air mail rates seems the best way to prevent an increase in use of air mail. If the increase in air mail is not halted, unnecessary use of air mail may crowd out passenger travel which is necessary.

3. A form of selective restriction in the use of air mail could be achieved by an appeal to the public. Press releases urging those sending air mail to use the service

only where necessary probably would decrease non-essential use. The present public attitude of sending matter by air mail when there is the slightest reason should be changed to that of using air mail only when there is a fairly urgent reason for transmitting the message more rapidly than by ordinary mail.

4. The present payments by the Post Office to the airlines for carrying air mail contain a subsidy for the passenger and express traffic of the airlines. Revenues of the airlines in the fiscal year 1941 averaged approximately \$0.50 per ton-mile for passengers, \$0.58 for express, and \$1.82 for mail. At present the Post Office receipts for air mail probably are sufficient to cover the full costs of air mail, exclusive of the subsidy paid to the airlines.
5. Under the Treasury proposal for a 15 percent tax on passenger fares, the yield from the tax on air-passenger travel would be sufficient to offset the postal deficiency from air mail under the present system of payments to airlines for carrying air mail. In effect, the excise tax would recoup from the passengers the subsidy paid them through the high air mail payments to the airlines.
6. The experience with the increase in air mail rates in 1932 does not apply to the situation of the immediate future. In the present boom period, an increase in air mail rates would aid in preventing the increase in volume which otherwise will occur. In the depression period, it is probable that no comparable increase would have occurred and consequently air mail volume fell off when the rates were increased.
7. The future capacity of the airlines is problematical. The airlines may receive delivery on the transport planes allotted them, but whether the lines will be permitted to retain them is not certain. The 25 transport planes of commercial airlines recently taken over by the Army represent around 7 percent of the number of planes owned by the airlines.

# United States Senate

COMMITTEE ON  
POST OFFICES AND POST ROADS

April 10, 1942

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

My dear Mr. Secretary:

Your letter of April 9 with enclosure regarding the Sixth Deficiency Appropriation Bill as it passed the Senate has been received and noted.

I realize this matter is of great importance and I will submit your proposal to the Committee. It may be well for you to come before the Committee and after we go over the matter I will call you further.

Very sincerely yours,



KENNETH MC CALLUM, TENN., CHAIRMAN  
JAMES J. DAVIS, PA.  
CLYDE M. KEES, KANS.  
JOHN THOMAS, IDAHO  
WILLIAM LANGRISH, N. CAR.  
WASH. A. BRYLER, MISS.  
RAYMOND E. WILLIAMS, IOWA.  
EUGENE D. MILLERON, COLO.  
CARL HAYDEN, ARIZ.  
MORRIS H. BULLITT, N. C.  
W. J. BARKER, S. CAR.  
FRANK E. SPARKS, WYO.  
SAMUEL CHASE, N. MEX.  
L. J. BENTLEY, ILL.  
J. W. WADSWORTH, N. J.  
J. W. WADSWORTH, N. J.

APR 9 1942

My dear Mr. Chairman:

I wish to call your attention to the position of the Treasury Department with respect to the following provision contained in lines 23 through 25 on page 50, and lines 1 through 4 on page 51 of the Sixth Deficiency Appropriation Bill (H. R. 6668) as it passed the Senate on April 7, 1942:

"Each such Secretary may, whenever he deems it appropriate or in the interest of economy or the avoidance of duplication of inspection and audit, request the services of the Bureau of Internal Revenue for the purposes of making examinations and determinations with respect to profits under this section, and the Bureau of Internal Revenue shall make such services available for such purposes."

This language, if enacted, would authorize the Secretary of the Navy, the Secretary of War, and perhaps the Chairman of the Maritime Commission, to require the Bureau of Internal Revenue to make examinations and determinations with respect to profits without reference to the availability of the facilities of the Bureau for such purposes

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and without giving the Secretary of the Treasury the right to make any determination as to the availability of such facilities.

I do not believe that what might very well prove to be a heavy burden should be thus imposed upon the Bureau at this time. Not only is our regular work increasing to the point where it will soon be greater than ever in our history but, due to the demands of the war, we must do that work with a limited number of trained people. On the one hand many of our better-equipped investigators have been called for military duty and I am very reluctant to request their deferment, while on the other, for obvious reasons the recruitment of qualified replacements has become exceedingly difficult.

In the light of the circumstances which I have outlined, I hope that it will be possible for you to have the conferees adopt a substitute for the amendment quoted above which, instead of requiring the Bureau to perform the work in question upon request of the officials mentioned, will authorize the use of the facilities of the Bureau of Internal Revenue for such purpose to the extent that the Secretary of

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the Treasury deems them available.

I assure you that I am in full accord with the purpose of the provision in question and that if my recommendation is followed the Treasury will cooperate to the fullest extent consistent with the best interests of the Government as a whole.

For your convenience in handling this matter, I am enclosing a draft of a substitute provision which would carry out the Treasury's recommendations.

Very truly yours,

*Margaret M. Quinn*

Secretary of the Treasury.

Hon. Kenneth McKellar,  
Acting Chairman, Committee on  
Appropriations,  
United States Senate.

*cc - N.M.C.*

*Mr. Sullivan is taking this letter  
up in person to Senator McKellar*

LJB:ims 4/9/42

## EXECUTIVE ORDER

DESIGNATING THE DEPARTMENTS AND AGENCIES TO  
INSPECT THE PLANTS AND AUDIT THE BOOKS AND  
RECORDS OF DEFENSE CONTRACTORS UNDER TITLE  
XIII OF THE SECOND WAR POWERS ACT, 1942.

By virtue of the authority vested in me by the Constitution and laws of the United States, and particularly by Title I of the First War Powers Act, 1941, and Title XIII of the Second War Powers Act, 1942, as President of the United States and Commander in Chief of the Army and Navy of the United States, and in order to prevent the accumulation of unreasonable profits, to avoid waste of Government funds, and to implement other measures which have been undertaken to forestall price rises and inflation, it is hereby ordered as follows:

1. I hereby designate the War Production Board, the War Department, the Navy Department, the Treasury Department, the United States Maritime Commission, and the Reconstruction Finance Corporation as the governmental agencies authorized to inspect the plant and to audit the books and records, as provided by Title XIII of the said Second War Powers Act, 1942. Such inspection and audit and the determination whether a given contract is a defense contract, as defined in Title XIII of the Second War Powers Act, 1942, may be made in the case of (a) any contractor with whom a defense contract has been placed by such agency, or, in the case of the Reconstruction Finance Corporation, by any corporation created or organized by it, at any time after the declaration of emergency on September 8, 1939, and before the termination of the present war, and in the case of (b) any subcontractor performing work required by any such defense contract. The Chairman of the War Production Board is authorized to issue rules and regulations and to establish policies to coordinate and govern the War Department, the Navy Department, the Treasury Department, the United States Maritime Commission, and the Reconstruction Finance Corporation in exercising the functions vested in them by this order.

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2. The authority herein conferred may be exercised by the Chairman of the War Production Board, the Secretary of War, the Secretary of the Navy, the Secretary of the Treasury, the United States Maritime Commission, and the Board of Directors of the Reconstruction Finance Corporation, respectively, or in their discretion and by their direction, respectively, may be exercised also by and through any officer or officers or civilian officials of their respective departments and agencies designated by them for those purposes. The Chairman of the War Production Board, the Secretary of War, the Secretary of the Navy, the Secretary of the Treasury, the United States Maritime Commission, or the Board of Directors of the Reconstruction Finance Corporation may authorize such officer or officers or civilian officials of their respective departments or agencies to make further delegations of such powers and authority within their respective departments and agencies.

3. In inspecting any plant engaged in producing, manufacturing, processing, constructing, altering, or repairing any defense article of a secret, confidential, or restricted nature, or which is produced, manufactured, processed, constructed, altered, or repaired in accordance with or under any secret process, formula, patent, or invention, and in auditing the books and records in connection with any such defense contract, such inspection shall be regarded as secret, confidential, or restricted, as the case may be, and all reports, records, papers, documents, and writings relating to such inspection or audit shall be marked or stamped as secret, confidential, or restricted, as the case may be, and shall be handled in accordance with regulations prescribed and in force in the department or agency concerned relating to the handling of secret, confidential, or restricted matters, reports, records, papers, documents, and writings.

4. The power to administer oaths or affirmations and to issue subpoenas for the attendance of witnesses or the production of books, records, or other documentary or physical evidence deemed relevant to the inquiry, conferred by section 1502, and, through the Department of

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Justice, the power to invoke the aid of any court of ~~The~~ United States, conferred by section 1303, Title XIII, of said Second War Powers Act, may be exercised, performed, or carried out by the Chairman of the War Production Board, the Secretary of War, the Secretary of the Navy, the Secretary of the Treasury, any member of the United States Maritime Commission, or the Chairman of the Board of Directors of the Reconstruction Finance Corporation, as the case may be, or by such other officer or officers or civilian officials as may be authorized, empowered or directed by any of them so to do for his respective department or agency.

5. Nothing herein shall affect or limit the authority and power conferred upon or granted to the Chairman of the War Production Board by Title XIII of said Second War Powers Act, 1942.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

April 10, 1942.

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WAR SHIPPING ADMINISTRATION  
WASHINGTON

April 10, 1942

The Honorable  
The Secretary of the Treasury

Dear Henry:

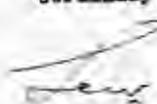
I am enclosing herewith the following document:

"Comparison of Estimates of Merchant Vessel Tonnage expected to be available for Merchant Service in United States Ocean Trades, by months, April 1942 through 1943, and Estimates of Merchant Vessel tonnage required for specified War Programs of the United States."

On the American side, what are called requirements were obtained through Mr. Joseph Meehan, Head of the Bureau of Research and Statistics of the Department of Commerce. His survey was undertaken for the War Production Board and the War Shipping Administration during the period in which the War Shipping Administration was setting up its own organization to obtain requirements. Those included in this report came from the Army, the War Production Board, the Office of Lend-Lease Administration, and the Board of Economic Warfare. They have not been reviewed or verified or compressed. Therefore, the deficit indicated on the American side is probably excess, in the light of the situation as it was on March 31st.

In the absence of detailed information covering the United States Army requirements, the report, as far as the purely American side is concerned, is based upon the broad statement of requirements submitted by the Army in January. From time to time, as compression of requirements is accomplished, through administrative action or the establishment of high priorities, and as changes in the available estimated supply of shipping occur, reports will be submitted to you.

Cordially yours,

  
L. W. DOUGLAS

Attachments

# SECRET

MEMORANDUM

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COMPARISON OF ESTIMATES OF MERCHANT VESSEL TONNAGE EXPECTED TO BE AVAILABLE FOR MERCHANT SERVICE IN UNITED STATES OCEAN TRADES, BY MONTHS, APRIL 1942 THROUGH 1943, AND ESTIMATES OF MERCHANT VESSEL TONNAGE REQUIRED FOR SPECIFIED WAR PROGRAMS OF THE UNITED STATES.

## I.

### INTRODUCTION

1. The purpose of this memorandum is to compare, in the most general broad terms, the ocean-going dry cargo merchant vessel tonnage available to meet the essential war programs of the United States, with the estimated ocean transportation requirements of those programs, for the coming twelve months, beginning with April 1, 1942.

Until the volume and destination of tonnage covered in such requirements is determined with much greater precision than present estimates afford, it is possible to make such a comparison only in the form of a broad general outline survey. Such a survey, balancing estimated requirements for tonnage against estimated present and future availabilities of merchant vessel tonnage in broad general terms and round figures, is a necessary preliminary step to the more precise calculation of requirements, which can only be done in the light of some general conception of the probable volume of tonnage availabilities for the different trade routes.

This memorandum, therefore, is designed to present the situation covered, in broad general terms, avoiding time-consuming refinements of method and detail which would be appropriately applicable to more

specific and precise estimates of requirements, but would make no significant differences in the broad outlines as here presented.

2. The estimates of merchant vessel tonnage requirements which have been used herein are based on the estimates of cargoes required to be moved, obtained by the War Shipping Administration from data provided by the Lend Lease Administration, the Board of Economic Warfare, and the War Production Board; the data thus obtained have been pro-rated and extended to cover, by months, the twelve-month period beginning April 1, 1942, and to exclude strictly Canadian requirements, insofar as these could be segregated in the data provided:

NOTE: Import requirements of approximately one million tons of bauxite to be shipped from the North Coast of South America to Canada via New England, have been included as being import requirements to United States ports required for United States industry (in the form of aluminum from Canada). This has been done on the basis of informal advices from the Stockpile and Shipping Branch of the War Production Board.

On the basis of similar advices, import requirements of bananas from the Caribbean area have been excluded to take account of a decision of March 25. Requirements for the transportation of molasses from the Caribbean area to the United States have also been excluded, since this is tanker cargo, not to be included in a survey of dry-cargo merchant vessel requirements.

3. Requirements for merchant vessel tonnage for the military services have been herein estimated in terms of vessels rather than cargoes to be carried, in order to utilize the data available. The assumptions and computations utilized in this connection are indicated in the appropriate portions of the text and tables.

## II.

SUMMARY AND CONCLUSIONS

The results of this comparison of ocean-going merchant tonnage requirements and availabilities, made on the basis of the information and computations described and presented in detail in the succeeding sections of this memorandum, are summarized in Table I attached.

This table shows in millions of deadweight tons:

- (a) the total merchant vessel tonnage estimated to be required in each month of the twelve-month period April 1942 to March 1943 to carry the cargo requirements estimated under the programs obtained from the Lend Lease Administration, the Board of Economic Warfare, and the War Production Board;
- (b) the total merchant tonnage estimated to be available for these programs, including tonnage under United States control and tonnage under foreign control participating in the ocean trades of the United States, with allowances for probable losses, tonnage out of service for repairs, and for certain additional essential requirements such as the Atlantic Coastwise coal trade, the necessary services between Alaska and Hawaii and the mainland, and for the requirements of the United States Army for additional cargo vessels to supply overseas bases and military forces;
- (c) the difference between tonnage requirements and availabilities,

COMPARISON  
of  
ESTIMATED REQUIREMENTS AND AVAILABILITIES OF OCEAN GOING MERCHANT VESSEL TONNAGE  
FOR SPECIFIED WAR PROGRAMS OF THE UNITED STATES  
BY MONTHS, APRIL 1942 TO MARCH 1943

Month	Tonnage Required	Tonnage Available	Difference Excess of Tonnage Required over Tonnage Available	Merchant Tonnage Estimated to be Under United States Military Control <sup>1/</sup> (Army & Navy)	
				Cargo Vessels	Troop Carriers
(MILLIONS OF DEAD WEIGHT TONS)					
April 1942	4.5	3.6	0.9	1.6	0.5
May	8.7	6.4	2.3	1.8	0.5
June	11.3	7.8	3.5	2.1	0.5
July	13.1	8.1	5.0	2.3	0.5
August	14.4	8.6	5.8	2.5	0.5
September	15.0	8.7	6.3	2.7	0.5
October	15.4	8.8	6.6	3.0	0.5
November	15.7	8.9	6.8	3.2	0.5
December	15.9	9.2	6.7	3.4	0.6
January 1943	16.0	9.5	6.5	3.6	0.6
February	16.1	9.7	6.4	3.9	0.6
March	16.1	9.9	6.2	4.1	0.7

<sup>1/</sup> Excludes Naval Auxiliaries but not tonnage scheduled to be delivered from new construction which may become Naval Auxiliaries; and excludes all tonnage owned by the Army and Navy.

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS  
April 6, 1942

or the "deficit", i. e., the amount by which the tonnage available falls short of the amount estimated to be necessary to fulfill the entire programs covered;

- (d) two final columns show the amount of merchant tonnage which, it is estimated, will be under military control, or will be diverted from merchant to military service when delivered from new construction, showing cargo vessels and troop carriers separately.

NOTE: These final columns must be considered with strict reservations, since the amount of tonnage involved is subject to continuing, rapid, and extensive change, and definitions relating to the subject vary greatly. Tonnage shown in these columns does not include naval auxiliaries nor vessels owned by the Army or Navy, but only merchant vessels chartered to the military services and vessels which, it is anticipated, may be expected to be delivered from the Maritime Commission construction program to the military services before or upon completion. Some of the latter will presumably become naval auxiliaries, but they are included here as constituting tonnage which would become available for merchant service if not delivered into military service.

While this comparison of requirements and availabilities of merchant vessel tonnage is necessarily presented in broad and general terms and in round figures, the conclusion is clear that the amount of tonnage available is substantially below the amount required to meet all of the requirements estimated for the various programs considered in this memorandum.

The estimates of vessel deadweight tonnage required to meet these programs, and of vessel tonnage resources, have been conservatively made in an effort to cover all likely contingencies. On the other

hand, these computations have been based on the assumption that the utilization of the vessels will be most efficient, that the construction of new merchant tonnage in the United States will result in deliveries of completed new vessels according to the schedules indicated and that war losses will not be substantially greater than herein estimated.

It has not been possible to make allowances for possible savings in tonnage by drastic rerouting or redistribution of tonnage. The computations upon which the comparison has been made have necessarily been based upon the available information as to requirements. If these requirements change, or are differently estimated, a corresponding change must follow in the estimated relationship of tonnage resources to requirements. It is also possible that some significant factor in this very complex situation has not been adequately surveyed or has been overlooked, but this is not believed to be likely in any substantial measure.

In any event, as already stated, it is evident that a substantial shortage exists in comparison with the various estimated requirements considered in this memorandum. It is also evident, therefore, that the estimated cargo tonnage requirements herein considered must be revised substantially downward. In order to indicate the extent to which the specific war programs, for which deadweight tonnage requirements have been computed under Part IV of this memorandum, must be revised downward if no changes are made in respect of other tonnage requirements as herein estimated, a supplement to this memorandum

will be provided in the near future, in which the deficit shown herein in terms of vessel deadweight tonnage required, will be recomputed in terms of the amounts of estimated cargo requirements in each month which cannot be accommodated by the tonnage estimated to be available.

Revised

April 6, 1942

## III.

ESTIMATES OF MERCHANT TONNAGE TO BE AVAILABLE

1. Merchant tonnage available includes tonnage under United States control, and tonnage under foreign control participating in the ocean trades of the United States. The former can be more definitely estimated for future periods than the latter.
2. In this memorandum, merchant tonnage available under United States control includes dry cargo ocean-going steam and motor merchant vessels of 1,000 gross tons and over under United States registry, and under foreign registry but under substantially direct control of the United States. Tankers are excluded by definition.
3. A substantial portion of the ocean-going dry cargo merchant tonnage under United States control is currently in military service. The amount of such tonnage is subject at present to constant and rapid change, as additional merchant vessels are chartered or otherwise allocated to the military services, and old charters expire without renewal. According to information available, the allocation of ocean-going dry cargo merchant vessel tonnage under United States control, between merchant and military service on March 31, 1942, was as follows:

Ocean-Going Dry Cargo Merchant Vessel Tonnage  
Under United States Control

(Steam and Motor Merchant Vessels  
of 1,000 Gross Tons and Over)

as of March 31, 1942

	<u>No. of Vessels</u>	<u>Thousands of Deadweight Tonn</u>
In merchant service	730	5,895
In military service	199	1,439
Total	929	6,734

NOTES: (1) These figures are subject to revision as information not yet available is received concerning losses,

charters from foreign control, etc. Statistics from separate counts made on different dates, even though referring to the same date, cannot be expected to be in precise accord for such recent dates in a field where there is so much change and divergence of definitions. The allocation of merchant vessels between merchant and military service is at present subject to extremely rapid change, and is therefore particularly difficult to follow.

(2) These totals include merchant vessels in merchant service, and cargo carriers chartered to the Army and Navy; they exclude auxiliaries of the fighting forces, and former merchant vessels converted to fighting vessels; they also exclude vessels owned by the Army and Navy. For purposes of the present memorandum, merchant vessels chartered to the Army and Navy and used by them as troop carriers are also excluded.

4. To estimate changes in merchant tonnage under United States control during the twelve-month period beginning April 1, 1942, it is necessary to add the estimated deliveries of new vessels under construction in the United States, and to deduct an allowance for probable losses. According to estimates based upon the Maritime Commission construction program as scheduled according to data available March 20, 1942, and latest available information regarding private construction, some 6,883 thousand deadweight tons of freighters are due to be delivered from new construction in the United States for delivery into United States merchant service in the next twelve months, subject to such further deductions, however, for allocation to other service as may be decided upon. The estimate of 6,883 thousand deadweight tons excludes combination passenger and freight vessels and vessels of CS design (it is assumed that there will be required for military service in the present emergency. 1/).

1/ To be troop transports or auxiliaries, but not as cargo carriers.

and freighters under construction in the United States for British Government account (under contract with private shipyards); it also excludes Lake ore carriers, tankers, barges, and tugs.

The detailed schedule by months and types supporting this estimate of 6,883 thousand deadweight tons is shown in Table 2.

5. On the basis of British experience in 1941, and United States experience in the three months following December, 1941, an estimate for probable losses of 2 percent per month of the tonnage available at the beginning of each month appears reasonable, subject of course to revision in the light of subsequent experience.
6. In order to allow for tonnage necessarily out of active service for repairs, installation of defense protection, etc. There is deducted an estimate of 10 percent of the tonnage under 5,000 deadweight per vessel, and of 12 $\frac{1}{2}$  percent for tonnage of large vessels, on the basis of tonnage available for merchant service as of March 31, 1942, a total deduction of not quite 645 thousand deadweight tons, as compared with approximately 650 thousand deadweight tons of merchant vessels under United States control and allocated to merchant service, estimated to be in repair as of the beginning of March, 1942. This estimate of 645 thousand deadweight tons is herein calculated as a constant deduction of that much tonnage from active service throughout the twelve-month period.
7. Table 3 shows the estimated deadweight tonnage of vessels under American control expected to be available for active merchant service on the basis of the foregoing estimates of present tonnage, new con-

SCHEDULED DELIVERIES OF NEW FREIGHTERS IN THE MERCHANT SHIPBUILDING PROGRAM OF THE UNITED STATES  
 BY MONTHS, APRIL 1, 1942 TO MARCH 31, 1943  
 AS SCHEDULED MARCH 20, 1942

Exclusive of vessels of C3 design, lake ore carriers, and freighters under construction  
 under British Government Contract, and excluding (by definition) combination  
 passenger and freight vessels, tankers, barges, and tugs

Type and Design	DWT. Per Vessel	Total	1 9 4 2										1 9 4 3		
			April	May	June	July	August	September	October	November	December	January	February	March	
C1A	7,400	103,600	-	-	-	14,800	22,200	7,400	-	14,800	22,200	-	7,400	14,800	
C1B	9,300	167,400	-	-	-	-	-	27,900	27,900	18,600	18,600	27,900	18,600	27,900	
C2	9,600	325,800	9,600	18,900	28,500	18,900	38,100	48,150	19,350	-	57,600	28,800	38,550	19,350	
EC2	10,500	6,174,000	241,500	304,500	357,000	367,500	346,500	556,500	441,000	703,500	787,500	619,500	735,000	714,000	
Coasters (N3)	2,800	100,800	-	2,800	2,800	5,600	5,600	11,200	19,600	14,000	8,400	11,200	8,400	11,200	
Cargo (Private)	11,100	11,100	11,100	-	-	-	-	-	-	-	-	-	-	-	
Total		6,882,700	262,200	326,200	388,300	406,800	412,400	651,160	507,850	750,900	894,300	687,400	807,950	787,250	

DRY CARGO OCEAN GOING MERCHANT VESSELS UNDER UNITED STATES CONTROL  
(STEAM AND MOTOR VESSELS OF 1000 GROSS TONS AND OVER)  
ESTIMATED TO BE AVAILABLE FOR ACTIVE MERCHANT SERVICE  
AS OF THE FIRST OF EACH MONTH, APRIL 1, 1942 TO APRIL 1, 1943

(Does not include Merchant Vessels in Military Service as of March 31, 1942)

Month	Year	Estimated Tonnage Available for Active Merchant Service as of the First of each Month	Scheduled New Deliveries of Cargo Vessels during the Month	Allowances for Probable Losses During the Month	Estimated Tonnage to be Available for Active Service as of end of the Month	Estimated Daily Average Tonnage to be Available in the Month
		(A)	(B)	(C)	(D)	
(THOUSANDS OF DEADWEIGHT TONS)						
April	1942	4,650 <sup>1/</sup>	262	89	4,823	4,737
May	1942	4,823	326	93	5,056	4,940
June	1942	5,056	388	97	5,347	5,202
July	1942	5,347	407	103	5,651	5,499
August	1942	5,651	412	109	5,954	5,803
September	1942	5,954	651	115	6,490	6,222
October	1942	6,490	504	126	6,872	6,681
November	1942	6,872	75	13	7,489	7,181
December	1942	7,489	894	146	8,237	7,863
January	1943	8,237	628	161	8,764	8,501
February	1943	8,764	808	172	9,400	9,082
March	1943	9,400	787	184	10,003	9,702

<sup>1/</sup> Merchant Vessels under United States Control available for Merchant Service as of March 31, 1942:  
Less estimated allowance for repairs (12½% of tonnage over DWT and 10% of tonnage under 5000 DWT):  
Balance available for active merchant service as of March 31, 1942:

5,295 Thous. D.W.T.  
645 Thous. D.W.T.  
4,650 Thous. D.W.T.

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struction, losses and deductions for vessels under repair, as of the beginning of each month from April 1, 1942 to April 1, 1943. The final column of this table, which is an average of the tonnage estimated to be available as of the beginning and end of each month of this twelve-month period, provides an estimate of the average deadweight tonnage under United States control, expected to be available for active merchant service in each month of this twelve-month period. <sup>1/</sup>

8. Not all of this tonnage, however, will be available for the specific programs referred to in Part I of this memorandum. Certain further reductions must be made to cover the maintenance of certain essential ocean trades of the United States and to allow for the likely requirements of the military services for additional cargo vessels.

The following estimates provide deductions for this purpose.

- (a) For certain essential United States trades not covered in the data as to requirements: for the coastwise coal trade from Hampton Roads ports to New England, 300,000 deadweight tons, the approximate amount of tonnage active in that trade as of the first of March, 1942; and for the requirements of the civilian populations of Alaska and Hawaii for necessary traffic to and from the mainland, on the basis of previous estimates of their requirements and existing tonnage in these

<sup>1/</sup> In a more closely calculated comparison it would be preferable to compare the tonnage available at the end of each period with the requirements as of the end of that period, but this is a refinement in method requiring a revision of computing procedure not required for the present purpose of presenting a broad general survey.

trades, 200,000 deadweight tons. These estimates are, of course, subject to change should requirements change. This gives a total of 500,000 deadweight tons to be reserved for the Atlantic coal trade and for the trade between Alaska and Hawaii and the mainland.

- (b) For the additional requirements for cargo vessels to meet the Army's requirements for the support of overseas military forces; a request of January 31, 1942 from the War Department for the allocation of 18 additional vessels monthly for this purpose is the basis for estimating a deduction here of 180,000 deadweight tons per month, cumulative each month. This makes no allowance for the chartering of additional passenger vessels to serve as troop transports under Army or Navy control. Just about all passenger vessels of substantial size and passenger carrying capacity in the merchant fleet under United States control are already allocated to military service and additional troop transport requirements must be met from other sources, including the new combination passenger and cargo vessels scheduled for construction under the Maritime Commission program. All of these have, as previously indicated, been excluded from estimates of cargo vessels scheduled to become available, since it is assumed that they will be allocated to Army or Navy service. Likewise, the new vessels of C3 type scheduled to be delivered during this period have been excluded under the assumption that they will be allocated to the Navy.

Appendix I, Tables A, B, and C, present estimates of the tonnage which will thus be diverted into military service, in addition to that now serving under military control, under these assumptions. The tonnage included in this Appendix covers also the vessels of merchant type (cargo carriers) which are owned by the Army and Navy and therefore not counted herein as part of the merchant fleet, and troop carriers, which are not included as merchant cargo vessels for the purpose of this memorandum.

To the extent that the requirements for military services differ in the actual event from the data herein utilized the comparison of requirements and availabilities will necessarily be changed.

- (c) A further deduction must be made to cover tonnage engaged in voyages initiated prior to April 1, which will not be available for use in the specified programs until these voyages are completed. From an examination of the clearance records of the individual vessels under United States control in merchant service as of late March (including vessels under repair), it is estimated that the following quantities of deadweight tonnage engaged in voyages initiated prior to April 1, 1942, will not have returned to United States ports by the twentieth of the month indicated, and therefore will not be available for new outbound loading in that month.

Estimated Ocean-Going Dry Cargo Merchant Tonnage Under United States Control (Vessels of 1,000 Gross Tons and Over) Engaged in Voyages Initiated Prior to April 1, 1942 and Not Returned to United States Ports by the Twentieth of the Month Indicated

	<u>Thousands Dead- weight Tons</u>
1942 April . . . . .	2,558
May . . . . .	1,540
June . . . . .	1,077
July . . . . .	699
August . . . . .	??

NOTES: (1) This is a decreasing remainder from the same tonnage; i.e. the 1,540 thousand tons not available in May is a part of the 2,558 thousand tons not available in April.

(2) More detailed accuracy would be introduced by making a similar computation to cover availability of tonnage at foreign ports, but the added complexity of this calculation is not necessary since, as will be seen from Part III, the tonnage requirements for outbound shipment govern in most trades, and in the outstanding exception (the Caribbean) the turnaround period is relatively short.

9. By making the foregoing deductions for essential trades not covered, for allocation of merchant tonnage to military service, and for tonnage engaged in voyages initiated prior to April 1, from the daily average deadweight tonnage estimated to be available each month as shown in the final column of Table 2, a remainder is obtained for each month which is the daily average deadweight tonnage estimated to be available in each month for the specified war programs for which estimates of requirements have been obtained from the Lend Lease Administration, the Board of Economic Warfare and the War Production Board. These deductions and their result are shown in Table 4.

It is to be observed, however, that this makes no allowance for other deductions which may prove necessary, including particularly a deduction, which may total several millions of deadweight tons during the year, to offset the excess of losses in merchant tonnage under United Nations control (other than that under United States control) over new merchant vessel construction in the British Empire. Whatever actual allocation of tonnage scheduled for construction in the United States may be made as the tonnage is delivered, the essential unity of the war effort requires that loss of carrying power by the merchant fleets of the other United Nations employed in essential war services must be offset to the fullest possible extent by tonnage under American control.

Further consideration is given to this point in a later portion of this memorandum, in considering the tonnage under foreign control participating in the ocean trades of the United States.

DAILY AVERAGE DEADWEIGHT TONNAGE ESTIMATED TO BE AVAILABLE FOR SPECIFIED  
WAR PROGRAMS, BY MONTHS, APRIL 1942 THROUGH MARCH 1943

Month	Estimated Daily Average Tonnage to be Available in the Month	New England Coal Trade & Hawaiian & Alaskan Service	Deductions		Total Deductions	Remainder Esti- mated to be Avail- able for Specified War Programs
			Required for Military Service	Employed in Voy- ages initiated prior to April 1, 1942		
(THOUSANDS OF DEADWEIGHT TONS)						
April 1942	4,737	500	180	2,558	3,238	1,499
May	4,940	500	360	1,540	2,400	2,540
June	5,202	500	540	1,077	2,117	3,085
July	5,499	500	720	699	1,919	3,580
August	5,803	500	900	77	1,477	4,326
September	6,222	500	1,080	-	1,580	4,642
October	6,681	500	1,260	-	1,760	4,921
November	7,181	500	1,440	-	1,940	5,241
December	7,863	500	1,620	-	2,120	5,743
January 1943	8,501	500	1,800	-	2,300	6,201
February	9,082	500	1,960	-	2,460	6,622
March	9,702	500	2,160	-	2,660	7,042

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10. No estimate of merchant vessels available to carry cargoes in and out of the United States would be complete without taking account of the vessels under foreign control participating in our ocean trades. As of the immediate present or past it is possible to compute this tonnage, taking as a basis the shipping which has been in trade with our ports with sufficient regularity and of such recent date as to warrant the assumption that it remains in our trade.

On this basis it may be estimated that there were in the ocean trades of the United States as of February 28, 1942, exclusive of vessels under repair in United States ports, a total of some 817 dry cargo vessels of 1,000 gross tons and over, with a total deadweight of 5,914 thousand tons. Of this tonnage, some 4,819 thousand deadweight tons was operating under United States ship warrant, including 3,015 thousand deadweight tons under warrants issued to the British Ministry of War Transport; the remainder of 1,095 thousand tons was not under United States ship warrant. The foregoing does not include some five millions of deadweight tons of shipping to which United States ship warrants had been issued (including 4.6 millions on which warrants had been issued to the British Ministry of War Transport) but which cannot be classed as active in United States ocean trades, for lack of sufficiently recent calls at United States ports.

11. This entire volume of foreign-controlled tonnage currently in United States ocean trades cannot, however, be counted on a par with tonnage controlled by the United States in estimating the tonnage

available to participate in the movement of cargoes essential to our war programs. Nor can the division between foreign controlled vessels under United States ship warrants and the remainder be taken as a satisfactory principle of classification for this purpose. It is necessary to examine the actual composition of this tonnage more closely.

It is also necessary to make some estimate for losses during the month of March, for which complete records are not available, and to allow for recent trends, such as the movement of tonnage under U.S.S.R. registry from the Pacific Ocean into the North Atlantic trade. Such an estimate must necessarily be in round figures in order to avoid an appearance of exactness which the data as yet available as to this recent period of major military developments could not support. Such round figures, however, are adequate for the broad purpose of this memorandum.

12. With estimates and allowances for changes as noted above, and pending the development of more exact information concerning this very recent period, the following is an estimate of the composition of the dry cargo merchant tonnage under foreign control active in the ocean trades of the United States as of March 31, 1942.

Estimated Tonnage of Vessels Under Foreign Control Active  
in Ocean Trades of the United States

By Control Groups

(As of March 31, 1942)

Millions of  
Deadweight Tons

1.	<u>Under British Control:</u> Vessels active in United States trade under British Registry and others under United States ship warrant to British Ministry of War Transport	3.4
2.	<u>Under Other United Nations Control:</u> Chiefly Norwegian, Netherlands, U.S.S.R. and Greek registry and including vessels of Swedish registry not engaged in trade with Sweden.	1.6
3.	<u>Under Latin American Registries:</u> (other than Panamanian registry elsewhere accounted for)	0.42
4.	<u>Under Neutral Registries:</u> Principally Portuguese, Spanish, French Swiss, and Swedish in trade with Sweden	<u>0.33</u>
	Total	5.75

13. In order to estimate the availability of this tonnage for the purposes of the United Nations, the tonnage under neutral registries (Group 4) must be written off as not available to serve the war programs of the United States. The tonnage under Latin American registries can be counted upon only to serve the direct trades between the United States and Latin America, and cannot be entirely controlled in those trades to serve the most essential wartime needs of the United States. This tonnage is therefore of relatively limited value and needs to be written down substantially in estimating its usefulness for

the purposes of the war program requirements herein considered. Such writing-down must be purely arbitrary: in order to give this tonnage some specific value in the present consideration, the 420,000 tons estimated to be in the service is written down to a value of 300,000 deadweight tons.

14. The great bulk of the foreign tonnage in our ocean trades, approximating five millions of deadweight tons, is under United Nations control and therefore available to serve the united war effort in which the United States is participating. In fact, most of that part of this tonnage which is under Netherlands registry is now in process of transfer to United States control through charter.

The availability of this five million deadweight tons of shipping to meet our essential war programs is, however, subject to two important qualifications. In the first place, the substantial excess of war losses affecting British and other United Nations tonnage, over new construction of merchant tonnage in the United Kingdom and Canada, is causing an increasingly pressing shortage of tonnage to meet essential requirements in other trades not touching United States ports. This deficit is probably running at the present time around, if not in excess of, two hundred fifty thousand deadweight tons per month. The only sources for replenishment are the new construction of merchant tonnage in the United States, or the withdrawal of tonnage currently employed in United States ocean trades.

The manner and degree to which this cumulating deficit will be

offset remains to be determined, but whatever course is followed, the necessity for meeting this increasing pressure of tonnage deficiency must be taken into account in balancing our own tonnage requirements to meet our share in the united war effort. The most convenient manner in which to take this into account in the present connection is by deducting an appropriate amount of tonnage each month from the foreign tonnage in our trade under United Nations control. Even if only four-fifths of the deficit is replenished in this manner, this will involve a drain of 200 thousand tons monthly from the five million deadweight tons of such shipping currently in our trade.

15. In the second place, allowances must be made for the tonnage employed in current voyages to complete these voyages by return to a United States port before it can be counted as available for participating in outbound traffic from the United States loaded subsequent to March 31. An appropriate allowance can be estimated on the assumption that all of this tonnage is evenly spaced on the turnarounds in its existing distribution in the ocean trades of the United States, except that one half of the tonnage previously employed in trading with the Southwest Pacific and East Indies is assumed to be out of normal spacing and bound directly for United States ports for reallocation to new service.
16. On the basis of the further assumption that the two hundred thousand tons per month required, as previously estimated, to replenish in part the cumulating deficiency of United Nations tonnage trading

in other parts of the world, will be withdrawn by diversion first from vessels not yet returned to United States ports, and only thereafter from the remainder, the amount of foreign (including British) tonnage under United Nations control estimated to be available for participation in the United States war programs with which this memorandum is concerned, may be computed as follows:

<u>Available in</u>	<u>Millions of Deadweight Tons</u>
April 1942	2.0
May	3.7
June	4.4
July	4.2
August	4.0
September	3.8
October	3.6
November	3.4
December	3.2
January 1943	3.0
February	2.8
March	2.6

Assuming further that the tonnage under Latin American registry to a comparative value of 300,000 deadweight tons, and employed largely in the trade with the East Coast of South America, is likewise substantially evenly spaced in the turnarounds, it may be estimated that this tonnage will become available for new employment in outbound service from the United States subsequent to March 31 in the following amounts (cumulative):

	<u>Millions of Deadweight Tons</u>
April	0.1
May	0.2
June and subsequent months	0.3

The total quantities of American controlled tonnage (as shown in Table 2, and of tonnage under other United Nations control and of Latin American tonnage, estimated to be available for the purposes herein covered, by months, beginning in April 1942, as set forth in Table 5.

ESTIMATED DEADWEIGHT TONNAGE AVAILABLE FOR OCEAN TRANSPORTATION  
REQUIRED FOR SPECIFIED WAR PROGRAMS OF THE UNITED STATES

<u>Month</u>	<u>United States Controlled Tonnage</u>	<u>Other United Nations Tonnage in United States Trade</u>	<u>Latin American Tonnage in United States Trade</u>	<u>Total</u>
(MILLIONS OF DEADWEIGHT TONS)				
<u>1942</u>				
April	1.5	2.0	.1	3.6
May	2.5	3.7	.2	6.4
June	3.1	4.4	.3	7.8
July	3.6	4.2	.3	8.1
August	4.3	4.0	.3	8.6
September	4.6	3.8	.3	8.7
October	4.9	3.6	.3	8.8
November	5.2	3.4	.3	8.9
December	5.7	3.2	.3	9.2
<u>1943</u>				
January	6.2	3.0	.3	9.5
February	6.6	2.8	.3	9.7
March	7.0	2.6	.3	9.9

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## IV.

ESTIMATED TONNAGE REQUIREMENTS FOR SPECIFIED WAR PROGRAMS

1. The data submitted as presenting the requirements of the United States for inbound and outbound cargoes, compiled in the Lend Lease Administration, the Board of Economic Warfare and the War Production Board, and pro-rated and extended to provide monthly estimates for the twelve-month period from April, 1942 to March, 1943 have been converted into vessel deadweight tonnage requirements by the following procedure: <sup>1/</sup>

(a) For the trades in which outbound cargo requirements predominate, and for the South and East African area for which the excess imports are expected to be lifted on return voyages of vessels dispatched to other Indian Ocean areas, the outbound cargo requirements measured in cubic feet, have been converted to vessel bale cubic requirements by applying the factor of 1.2 to allow for broken stowage. The bale cubic requirements have further been converted into vessel deadweight requirements by applying a ratio of 50 cubic feet of bale cubic to one dead weight ton, a ratio based upon examination of the characteristics of several hundred vessels, with a moderate allowance for deck cargoes.

(b) For the trades in which inbound cargo requirements pre-

<sup>1/</sup> After making adjustments, as previously stated, to eliminate Canadian requirements except bauxite, and requirements for importing bananas and molasses (tanker cargoes).

dominate, the inbound cargo requirements measured in long tons of 2240 lbs. have been converted to vessel deadweight requirements by applying the ratio of 85:100, thus making an allowance of 15 percent of the vessel deadweight for fuel, water, and stores.

- (c) For the trades in which inbound cargo requirements predominate, the deadweight tonnage required to lift outbound requirements has also been computed by the method explained under (a).

In order to compute the full amounts of deadweight tonnage necessary to carry the estimated cargo requirements to destination, it is necessary to add the amount of deadweight tonnage required in subsequent months for completing the voyages for which the loading requirements have thus been computed. The totals of these two computations of deadweight tonnage requirements represent the total deadweight tonnage required to be employed in each month for the carriage of the cargoes of destination.

The amounts of deadweight tonnage required for these purposes in each of the trades concerned, for each month of the period, are shown in detail in Appendix 11, Tables 1-17. The outbound requirements are shown for all trades, the inbound requirements only for the trades in which these predominate over the outbound trades, except for the South and East African area, for the reasons explained under (a). The total estimated deadweight tonnage requirements to lift outbound and inbound cargo requirements estimated for the programs covered in this section

are shown in Table 6, by trades and by totals for each month of the period. The requirements for outbound movement have been included herein for those trades in which outbound requirements exceed the inbound (and for South and East Africa); whereas for those trades in which inbound requirements exceed the outbound, the inbound requirements have been included.

There remains to be considered the degree to which inbound requirements may be carried on return voyages by vessels dispatched outbound to meet Army requirements for servicing overseas bases or forces. This may make possible a greater importation of essential products from certain areas, or a reduction of excess import requirements in those trades where such requirements predominate. The maximum conceivable degree to which total tonnage requirements could be reduced by the utilization of such return voyages of vessels on Army service, for the bringing in of essential importations, is to be seen in the total excess of inbound over outbound requirements in those trades in which there is such excess (again excepting South and East Africa). This total amounts to 546,000 deadweight tons for April, 892,000 deadweight tons for May, and slightly over one million deadweight tons thereafter. Since, however, most outbound voyages in Army service may be expected to go in the same general directions as Lend Lease cargoes, and therefore may not be expected normally to be in position to pick up such return cargoes except by extensive and probably time-consuming rerouting, the amount of tonnage which can be saved by this means will probably prove negligible. Such savings as the use of return voyages

OCEAN GOING DRY CARGO MERCHANT TONNAGE NEEDED FOR  
CARRYING OUTBOUND AND INBOUND ESTIMATED CARGO REQUIREMENTS FOR  
SPECIFIED WAR PROGRAMS

BY INDIVIDUAL TRADES AND TOTALS, BY MONTHS, APRIL 1942 TO MARCH 1943.

Month	O U T B O U N D									I N B O U N D				Grand Total Inbound and Outbound		
	Atlantic & Gulf Coasts to East Coast of South America	Atlantic Coast to Iceland	Atlantic Coast to North Russia	Atlantic Coast to United Kingdom	Atlantic & Gulf Coasts to South & East Africa	Atlantic & Gulf Coasts to Red Sea	Atlantic & Gulf Coasts to Persian Gulf	Atlantic & Gulf Coasts to India & Ceylon	Pacific Coast to Aus- tralias	Total Outbound	Caribbean to Atlan- tic & Gulf Coasts	North Coast of South America to At- lantic & Gulf Coasts	West Coast South America to At- lantic & Gulf Coasts		West Africa to At- lantic & Gulf Coasts	Total Inbound
	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT	(000 omitted) DWT		(000 omitted) DWT	(000 omitted) DWT
April 1942	377	54	288	1,718	82	324	121	347	180	3,491	448	240	285	53	1,036	4,527
May	759	108	577	3,436	164	685	247	594	360	7,030	448	480	570	126	1,624	8,654
June	1,146	108	865	4,011	246	1,044	372	1,041	540	9,373	448	640	665	189	1,942	11,315
July	1,284	108	1,275	4,011	328	1,352	503	1,518	720	11,099	448	640	665	210	1,963	13,062
August	1,294	108	1,686	4,011	328	1,661	636	1,998	720	12,442	448	640	665	210	1,963	14,405
September	1,397	108	1,905	4,011	328	1,753	688	2,243	720	13,065	448	640	665	210	1,963	15,028
October	1,300	108	2,032	4,011	328	1,760	696	2,480	720	13,435	448	640	665	210	1,963	15,398
November	1,300	108	2,155	4,011	328	1,709	702	2,717	720	13,790	448	640	665	210	1,963	15,713
December	1,300	108	2,196	4,011	328	1,658	704	2,868	720	13,893	448	640	665	210	1,963	15,856
January 1943	1,300	108	2,196	4,011	328	1,658	704	2,976	720	14,001	448	640	665	210	1,963	15,964
February	1,300	108	2,196	4,011	328	1,658	704	3,084	720	14,109	448	640	665	210	1,963	16,072
March	1,300	108	2,196	4,011	328	1,658	704	3,120	720	14,145	448	640	665	210	1,963	16,108

OUTBOUND

Estimates for trades in which outbound shipping tonnage requirements predominate over inbound.

INBOUND

Estimates for trades in which inbound shipping tonnage requirements predominate over outbound.

Tonnage between the U. S. and South and East Africa, although predominately inbound, was included under "Outbound" since it is assumed that there would be ample tonnage returning from the Red Sea, Persian Gulf and India to carry the excess of inbound over outbound requirements.

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of vessels in military service may be able to make in respect of tonnage requirements will therefore probably be almost entirely in the field of substitute sources of substitute materials from sources to which excess outbound shipping must be dispatched. The same applies to other excesses of outbound tonnage and the subject involves, therefore, the possibilities of revising sources and amounts of import tonnage. No estimate is therefore included in the present report to allow many possible savings on this account.

ESTIMATED DEADWEIGHT TONNAGE OF MERCHANT VESSELS AND TROOP CARRIERS  
UNDER ARMY AND NAVY CONTROL

200

(Under Assumptions Specified Below)

BY MONTHS APRIL 1942 THROUGH MARCH 1943DOES NOT INCLUDE VESSELS OWNED BY ARMY OR NAVY

## ASSUMPTIONS:

These tables assume that Merchant Vessels and Troop Carriers under Army and Navy Control during this period will include:

- (1) All cargo vessels and troop carriers in Army and Navy control as of March 31, 1942
- (2) a: To Navy:  
All type C3 vessels and one C3P, scheduled to be delivered from Maritime Commission Construction Program in this period.
- b: To Army:  
All other Combination Passenger and Cargo vessels scheduled to be delivered from Maritime Commission Construction Program in this period
- (3) Additional allocation to Army service of 180,000 deadweight tons of cargo vessels from merchant service in each month of this period.

Month	<u>Army Control</u>		<u>Navy Control</u> <sup>1/</sup>	
	<u>Cargo Vessels</u> D. W. T.	<u>Troop Carriers</u> D. W. T.	<u>Cargo Vessels</u> D. W. T.	<u>Troop Carriers</u> D. W. T.
April	1,412,700	401,800	231,300	97,700
May	1,592,700	401,800	256,500	97,700
June	1,772,700	408,400	281,700	107,700
July	1,952,700	424,000	306,900	107,700
August	2,132,700	424,000	369,900	107,700
September	2,312,700	442,000	432,900	107,700
October	2,492,700	442,000	470,700	107,700
November	2,672,700	442,000	521,100	107,700
December	2,852,700	457,600	558,900	107,700
January	3,032,700	457,600	609,500	107,700
February	3,212,700	507,700	647,100	107,700
March	3,392,700	548,800	697,500	107,700

<sup>1/</sup> Excludes vessels, formerly merchant vessels, listed as Naval Auxiliaries as of March 31, 1942, but includes all vessels assumed to be launched or allocation to Navy from Maritime Commission Construction Program.

Source: Records of Division of Economics and Statistics, U. S. Maritime Commission; Construction Program as scheduled March 20, 1942.

MERCHANT VESSELS IN MILITARY SERVICEand Military Vessels Converted from Merchant Vessels1. UNDER U. S. ARMY CONTROL

## 1. Vessels in Army Control as of March 31, 1942

	<u>Cargo Vessels</u>		<u>Troop Transports</u>	
	<u>No.</u>	<u>D. W. T.</u>	<u>No.</u>	<u>D. W. T.</u>
Owned by Army	11	74,400	21	161,200
Chartered to Army 1/	161	1,232,700	48	401,800

1/ Includes Vessels under Foreign Registry, as follows:

Cargo: 28 of 137,500 D.W.T.  
Troop Transports: 8 of 97,800 D.W.T.

2. Estimated deadweight tonnage for future allocation to Army Control:  
(see assumptions stated below)

<u>Month</u>	<u>Total</u>	<u>Cargo</u>	<u>Combination</u>	<u>Notes as to Column 4</u>
<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
April 1942	180,000	180,000	-	
May	180,000	180,000	-	
June	186,600	180,000	6,600	1 Alcoa type
July	195,600	180,000	15,600	1 Alcoa, 1 Mississippi type
August	180,000	180,000	-	
September	198,000	180,000	18,000	1 Mississippi type, 1 C3 IN.
October	180,000	180,000	-	
November	180,000	180,000	-	
December	195,600	180,000	15,600	1 C3 IN, 1 Alcoa type
January 1943	180,000	180,000	-	
February	230,100	180,000	50,100	1 C3 IN, 1 Miss., 2 C4 type
March	221,100	180,000	41,100	1 C3 IN, 2 C4 type
Totals	2,307,000	2,160,000	147,000	

ASSUMPTIONS

The foregoing is based on the following assumptions, made for statistical purposes only:

- (1) That the Army's request of January 31, 1941, for 18 additional cargo ships (averaging 10,000 D.W.T.) per month will be met through this period;
- (2) That all new Combination Passenger and Cargo vessels scheduled for delivery from the Maritime Commission in this period, except one C3P due to be delivered June, will be allocated to Army service.

(based on Construction Program schedules as of March 20, 1942)

MERCHANT VESSELS IN MILITARY SERVICEand Military Vessels Converted from Merchant VesselsII. UNDER U. S. NAVY CONTROL

## 1. Vessels in Navy Control as of March 31, 1942

	<u>Cargo Vessels</u>		<u>Troop Transports</u>	
	<u>No.</u>	<u>D. I. T.</u>	<u>No.</u>	<u>D. I. T.</u>
Owned by Navy	8	68,000	8	75,500
Chartered to Navy	38 <sup>1/2</sup>	206,100	9 <sup>1/2</sup>	97,700

<sup>1/2</sup> Includes 6 vessels of 43,900 D. I. T. under Foreign Registry  
(5 cargo vessels of 42,300 and 1 Troop Carrier of 1,600 D. I. T.)

NOTE: The foregoing does not include former merchant vessels converted into Naval auxiliaries.

## 2. Estimated tonnage earmarked for allocation to Navy Control from Maritime Commission Construction Program

April 1, 1942 to March 31, 1943

(See assumptions stated below)

<u>Month</u>	<u>D. I. T.</u>	<u>Explanation</u>
April, 1942	25,200	2 C3 type
May	25,200	2 C3 type
June	35,200	2 C3 type 1 C3P type
July	25,200	2 C3 type
August	63,000	5 C3 type
September	63,000	5 C3 type
October	37,800	3 C3 type
November	50,400	4 C3 type
December	37,800	3 C3 type
January, 1943	50,400	4 C3 type
February	37,800	3 C3 type
March	<u>50,400</u>	4 C3 type
Total	<u>501,400</u>	

NOTE: The foregoing includes the following Assumptions, made for statistical purposes only:

- (1) That all vessels of C3 scheduled to be delivered in this period under the Maritime Commission Construction Program, and
- (2) One C3P vessel due to be delivered in June, 1942 under the Maritime Commission Program

will be allocated to Navy Control

(Based on Construction Program schedules as of March 20, 1942)

INBOUND  
(Tonnage required in trades  
in which inbound tonnage  
requirements predominate  
over outbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING INBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

CARIBBEAN TO ATLANTIC AND GULF

Month	<u>INBOUND CARGO ESTIMATES (1)</u>	<u>DEADWEIGHT TONNAGE OF VESSELS REQUIRED TO MOVE ESTIMATED CARGOES</u>	<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of D.T.</u>	<u>Thousands of D.T.</u>	<u>Thousands of D.T.</u>
April 1942	380	448	-	448
May	380	448	-	448
June	380	448	-	448
July	380	448	-	448
August	380	448	-	448
September	380	448	-	448
October	380	448	-	448
November	380	448	-	448
December	380	448	-	448
January 1943	380	448	-	448
February	380	448	-	448
March	380	448	-	448

(1) Excludes 2,732,000 tons of Molasses which is carried  
by Tankers and 716,900 tons of Bananas.

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INBOUND  
(Tonnage required in trades  
in which inbound tonnage  
requirements predominate  
over outbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING INBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

NORTH COAST SOUTH AMERICA TO ATLANTIC AND GULF

Month	<u>INBOUND CARGO ESTIMATES</u> <sup>1/</sup>	DEADWEIGHT TONNAGE OF VESSELS REQUIRED TO MOVE ESTIMATED CARGOES	ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942	TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED
	Thousands of Long Tons	Thousands of DWT.	Thousands of DWT.	Thousands of DWT.
April <u>1942</u>	204	240	-	240
May	204	240	240	480
June	204	240	400	640
July	204	240	400	640
August	204	240	400	640
September	204	240	400	640
October	204	240	400	640
November	204	240	400	640
December	204	240	400	640
January <u>1943</u>	204	240	400	640
February	204	240	400	640
March	204	240	400	640

<sup>1/</sup> Includes 1,000,000 tons of bauxite for Canada via Portland, Maine.

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INBOUND  
(Tonnage required in trades  
in which inbound tonnage  
requirements predominate  
over outbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING INBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

WEST COAST SOUTH AMERICA TO ATLANTIC AND GULF

<u>Month</u>	<u>INBOUND CARGO ESTIMATES</u>	<u>DEADWEIGHT TONNAGE OF VESSELS REQUIRED TO MOVE ESTIMATED CARGOES</u>	<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
April <u>1942</u>	243	285	-	285
May	243	285	285	570
June	243	285	380	665
July	243	285	380	665
August	243	285	380	665
September	243	285	380	665
October	243	285	380	665
November	243	285	380	665
December	243	285	380	665
January <u>1943</u>	243	285	380	665
February	243	285	380	665
March	243	285	380	665

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MARCH 31, 1942

INBOUND  
(Tonnage required in trades  
in which inbound tonnage  
requirements predominate  
over outbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING INBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

(WEST AFRICA TO ATLANTIC AND GULF)

<u>Month</u>	<u>INBOUND CARGO ESTIMATES</u>	<u>DEADWEIGHT TONNAGE OF VESSELS REQUIRED TO MOVE ESTIMATED CARGOES</u>	<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
April <u>1942</u>	54	63	-	63
May	54	63	63	126
June	54	63	126	189
July	54	63	147	210
August	54	63	147	210
September	54	63	147	210
October	54	63	147	210
November	54	63	147	210
December	54	63	147	210
January <u>1943</u>	54	63	147	210
February	54	63	147	210
March	54	63	147	210

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OUTBOUND

(Tonnage required in trades in which outbound tonnage requirements predominate over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

ATLANTIC AND GULF TO EAST COAST SOUTH AMERICA

Month	<u>CARGO TO BE LOADED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Bale Cubic</u> <u>Thousands of Cubic Feet</u>	<u>Vessel DWT.</u> <u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
April 1942	303	15700	18900	377	-	377
May	305	15900	19100	382	377	759
June	307	16100	19300	387	759	1146
July	308	16200	19500	389	895	1234
August	308	16200	19500	389	905	1294
September	308	16200	19500	389	910	1299
October	308	16200	19500	389	911	1300
November	308	16200	19500	389	911	1300
December	308	16200	19500	389	911	1300
January 1943	308	16200	19500	389	911	1300
February	308	16200	19500	389	911	1300
March	308	16200	19500	389	911	1300

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APRIL 6, 1942

OUTBOUND  
(Tonnage required in trades  
in which outbound tonnage  
requirements predominate  
over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

Month	<u>CARGO TO BE MOVED</u>	<u>ATLANTIC TO ICELAND</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>			
		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>				<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>	
		<u>Bale Cubic</u>	<u>Vessel Dwt.</u>					
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Thousands of Cubic Feet</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>			
April	1942	35	2,250	2,700	54	-	54	108
May		35	2,250	2,700	54	54	54	108
June		35	2,250	2,700	54	54	54	108
July		35	2,250	2,700	54	54	54	108
August		35	2,250	2,700	54	54	54	108
September		35	2,250	2,700	54	54	54	108
October		35	2,250	2,700	54	54	54	108
November		35	2,250	2,700	54	54	54	108
December		35	2,250	2,700	54	54	54	108
January	1943	35	2,250	2,700	54	54	54	108
February		35	2,250	2,700	54	54	54	108
March		35	2,250	2,700	54	54	54	108

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OUTBOUND  
(Tonnage Required in Trades  
in which Outbound Tonnage  
Requirements Predominate  
over Inbound.)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U.S. OCEAN TRADES

ATLANTIC TO NORTH RUSSIA

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>		<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	Thousands of Long Tons	Thousands of Cubic Ft.	Bale Cubic Thousands of Cubic Feet	Vessel Dwt. Thousands of DWT	Thousands of DWT.		Thousands of DWT.
April, 1942	267	12,000	14,200	288	-		288
May	268	12,100	14,500	289	288		577
June	268	12,100	14,500	289	576		865
July	333	17,100	20,500	411	864		1,275
August	333	17,100	20,500	411	1,275		1,686
September	333	17,100	20,500	411	1,494		1,905
October	333	17,100	20,500	411	1,621		2,032
November	333	17,100	20,500	411	1,744		2,155
December	333	17,100	20,500	411	1,875		2,196
January, 1943	333	17,100	20,500	411	1,875		2,196
February	333	17,100	20,500	411	1,875		2,196
March	333	17,100	20,500	411	1,875		2,196

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OUTBOUND  
(Tonnage required in trades  
in which outbound tonnage  
requirements predominate  
over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

ATLANTIC TO UNITED KINGDOM

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	Thousands of Long Tons	Thousands of Cubic Feet	Thousands of Cubic Feet	Thousands of DWT.	Thousands of DWT.	Thousands of DWT.
			<u>Bale Cubic</u>	<u>Vessel DWT.</u>		
April 1942	1,555	71,565	85,878	1,718		1,718
May	1,555	71,565	85,878	1,718	1,718	3,436
June	1,555	71,565	85,878	1,718	2,293	4,011
July	1,555	71,565	85,878	1,718	2,293	4,011
August	1,555	71,565	85,878	1,718	2,293	4,011
September	1,555	71,565	85,878	1,718	2,293	4,011
October	1,555	71,565	85,878	1,718	2,293	4,011
November	1,555	71,565	85,878	1,718	2,293	4,011
December	1,555	71,565	85,878	1,718	2,293	4,011
January 1943	1,555	71,565	85,878	1,716	2,293	4,011
February	1,555	71,565	85,878	1,718	2,293	4,011
March	1,555	71,565	85,878	1,718	2,293	4,011

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April 6, 1942.

OUTBOUND  
(Tonnage required in trades  
in which outbound tonnage  
requirements predominate  
over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

ATLANTIC AND GULF TO SOUTH AND EAST AFRICA \*

Month		<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
		<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Bale Cubic</u>	<u>Vessel Dwt.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
				<u>Thousands of Cubic Feet</u>	<u>Thousands of DWT.</u>		
April	<u>1942</u>	67	3,400	4,100	82	-	82
May		67	3,400	4,100	82	82	164
June		67	3,400	4,100	82	164	246
July		67	3,400	4,100	82	246	328
August		67	3,400	4,100	82	246	328
September		67	3,400	4,100	82	246	328
October		67	3,400	4,100	82	246	328
November		67	3,400	4,100	82	246	328
December		67	3,400	4,100	82	246	328
January	<u>1943</u>	67	3,400	4,100	82	246	328
February		67	3,400	4,100	82	246	328
March		67	3,400	4,100	82	246	328

\* South and East Africa, although predominately inbound was included under "Outbound" since it is assumed that there would be tonnage returning from the Red Sea, Persian Gulf and India to carry the excess of inbound over outbound requirements.

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OUTBOUND  
(Tonnage required in trades  
in which outbound tonnage  
requirements predominate  
over inbound.)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

ATLANTIC AND GULF TO RED SEA

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NET LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	Thousands of Long Tons	Thousands of Cubic Ft.	Thousands of Cubic Feet	Thousands of DWT.	Thousands of DWT.	Thousands of DWT.
April 1942	188	13,500	16,200	324	-	324
May	206	15,100	18,100	361	324	685
June	197	15,000	18,000	359	685	1,044
July	205	12,900	15,500	308	1,044	1,352
August	205	12,900	15,500	308	1,353	1,661
September	205	12,900	15,500	308	1,455	1,763
October	205	12,900	15,500	308	1,452	1,760
November	205	12,900	15,500	308	1,401	1,709
December	205	12,900	15,500	308	1,350	1,658
January 1943	205	12,900	15,500	308	1,350	1,658
February	205	12,900	15,500	308	1,350	1,658
March	205	12,900	15,500	308	1,350	1,658

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS  
April 6, 1942

OUTBOUND  
(Tonnage required in trades in which outbound tonnage requirements predominate over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

ATLANTIC AND GULF TO PERSIAN GULF

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	Thousands of Long Tons	Thousands of Cubic Feet	<u>Bale Cubic</u>	<u>Vessel Dwt.</u>	Thousands of DWT.	Thousands of D.T.
			Thousands of Cubic Feet	Thousands of DWT.		
April 1942	72	5,000	5,100	121	-	121
May	75	5,300	5,300	126	121	247
June	73	5,300	5,300	126	246	372
July	77	5,600	5,700	133	370	503
August	77	5,600	5,700	133	503	636
September	77	5,600	5,700	133	585	688
October	77	5,600	5,700	133	563	696
November	77	5,600	5,700	133	569	702
December	77	5,600	5,700	133	571	704
January 1943	77	5,600	5,700	133	571	704
February	77	5,600	5,700	133	571	704
March	77	5,600	5,700	133	571	704

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS  
APRIL 6, 1942

OUTBOUND  
(Tonnage required in trades  
in which outbound tonnage  
requirements predominate  
over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1942  
BY SPECIFIED U. S. OCEAN TRADES

ATLANTIC AND GULF TO INDIA AND CEYLON

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Bale Cubic</u>	<u>Vessel Dwt.</u>		
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Thousands of Cubic Feet</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
April 1942	202	14,400	17,300	347	-	347
May	202	14,400	17,300	347	347	694
June	202	14,400	17,300	347	694	1,041
July	253	19,900	23,900	477	1,041	1,518
August	253	19,900	23,900	477	1,521	1,998
September	253	19,900	23,900	477	1,766	2,243
October	257	24,500	29,300	586	1,894	2,480
November	257	24,500	29,300	586	2,131	2,717
December	257	24,500	29,300	586	2,282	2,868
January 1943	257	24,500	29,300	586	2,390	2,976
February	257	24,500	29,300	586	2,498	3,084
March	257	24,500	29,300	586	2,534	3,120

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS  
APRIL 6, 1942

OUTBOUND  
(Tonnage required in trades  
in which outbound tonnage  
requirements predominate  
over inbound)

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

PACIFIC TO AUSTRALASIA

<u>Month</u>	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Thousands of Cubic Feet</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
April 1942	125	7,500	9,000	180	-	180
May	125	7,500	9,000	180	180	360
June	125	7,500	9,000	180	360	540
July	125	7,500	9,000	180	540	720
August	125	7,500	9,000	180	540	720
September	125	7,500	9,000	180	540	720
October	125	7,500	9,000	180	540	720
November	125	7,500	9,000	180	540	720
December	125	7,500	9,000	180	540	720
January 1943	125	7,500	9,000	180	540	720
February	125	7,500	9,000	180	540	720
March	125	7,500	9,000	180	540	720

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS  
APRIL 6, 1942

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

OUTBOUND FROM ATLANTIC AND GULF COASTS  
TO CARIBBEAN (INCLUDING GULF COAST OF MEXICO AND COLOMBIA)

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	Thousands of Long Tons	Thousands of Cubic Ft.	Thousands of Cubic Feet	Thousands of DWT.	Thousands of DWT.	Thousands of DWT.
April, 1942	163	10,600	12,700	253	-	253
May	163	10,600	12,700	253	-	253
June	163	10,600	12,700	253	-	253
July	163	10,600	12,700	253	-	253
August	163	10,600	12,700	253	-	253
September	163	10,600	12,700	253	-	253
October	163	10,600	12,700	253	-	253
November	163	10,600	12,700	253	-	253
December	163	10,600	12,700	253	-	253
January, 1943	163	10,600	12,700	253	-	253
February	163	10,600	12,700	253	-	253
March	163	10,600	12,700	253	-	253

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS  
April 6, 1942

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

OUTBOUND FROM ATLANTIC AND GULF COASTS  
TO NORTH COAST SOUTH AMERICA (EXCLUDING COLOMBIA)

Month	<u>CARGO TO BE MOVED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Feet</u>	<u>Bale Cubic</u>	<u>Vessel Dwt.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
			<u>Thousands of Cubic Feet</u>	<u>Thousands of DWT.</u>		
April 1942	64	4,550	5,460	109	-	109
May	65	4,650	5,580	112	109	221
June	66	4,750	5,700	114	185	299
July	66	4,750	5,700	114	190	304
August	66	4,750	5,700	114	192	306
September	66	4,750	5,700	114	192	306
October	66	4,750	5,700	114	192	306
November	66	4,750	5,700	114	192	306
December	66	4,750	5,700	114	192	306
January 1943	66	4,750	5,700	114	192	306
February	66	4,750	5,700	114	192	306
March	66	4,750	5,700	114	192	306

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS AND STATISTICS,  
April 6, 1942

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

OUTBOUND FROM ATLANTIC AND GULF TO WEST COAST SOUTH AMERICA

Month	<u>CARGO TO BE LOADED</u>		<u>ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED</u>		<u>ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942</u>	<u>TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED</u>
	<u>Thousands of Long Tons</u>	<u>Thousands of Cubic Ft.</u>	<u>Bale Cubic Thousands of Cubic Ft.</u>	<u>Vessel DWT. Thousands of DWT.</u>	<u>Thousands of DWT.</u>	<u>Thousands of DWT.</u>
April, 1942	61	3,570	4,284	86	-	86
May	62	3,670	4,404	88	86	174
June	63	3,770	4,524	90	116	206
July	65	3,970	4,760	95	120	215
August	65	3,970	4,760	95	127	222
September	65	3,970	4,760	95	129	224
October	65	3,970	4,760	95	129	224
November	65	3,970	4,760	95	129	224
December	65	3,970	4,760	95	129	224
January, 1943	65	3,970	4,760	95	129	224
February	65	3,970	4,760	95	129	224
March	65	3,970	4,760	95	129	224

UNITED STATES MARITIME COMMISSION  
DIVISION OF ECONOMICS & STATISTICS  
April 6, 1942

ESTIMATED DRY CARGO MERCHANT VESSEL TONNAGE REQUIRED  
FOR CARRYING OUTBOUND CARGO ESTIMATES FOR SPECIFIED WAR PROGRAMS  
BY MONTHS APRIL 1942 TO MARCH 1943  
BY SPECIFIED U. S. OCEAN TRADES

OUTBOUND FROM ATLANTIC AND GULF  
TO WEST COAST AFRICA

CARGO TO BE MOVED	ESTIMATED TONNAGE REQUIRED FOR NEW LOADINGS IN MONTH INDICATED		ESTIMATED DEADWEIGHT TONNAGE REQUIRED FOR EMPLOYMENT ON VOYAGES INITIATED IN PRIOR MONTHS BUT NOT BEFORE APRIL 1, 1942		TOTAL DEADWEIGHT OF VESSELS REQUIRED TO BE EMPLOYED
	Thousands of Long Tons	Thousands of Cubic Feet	Thousands of Cubic Feet	Thousands of DWT.	Thousands of DWT.
Month					
April 1942	26	1,760	2,110	42	42
May	26	1,760	2,110	42	84
June	26	1,760	2,110	42	126
July	26	1,760	2,110	42	140
August	26	1,760	2,110	42	140
September	26	1,760	2,110	42	140
October	26	1,760	2,110	42	140
November	26	1,760	2,110	42	140
December	26	1,760	2,110	42	140
January 1943	26	1,760	2,110	42	140
February	26	1,760	2,110	42	140
March	26	1,760	2,110	42	140

UNITED STATES MARITIME COMMISSION,  
DIVISION OF ECONOMICS AND STATISTICS,  
April 6, 1942.

Bottom cargo for Russians sent from mill to port

(In tons)

	Philadelphia	Baltimore	New York	Total
Record of actual tonnage sent from mill to port:				
Sunday April 5.....	530	371	698	1,599
Monday April 6.....	3,424	1,226	1,397	6,047
Tuesday April 7.....	3,083	2,651	2,014	7,748
Wednesday April 8.....	3,374	2,622	2,107	8,103
Thursday April 9.....	3,231	3,884	2,892	10,007
Friday April 10.....	—	—	—	—
Saturday April 11.....	—	—	—	—
Total actual shipments, April 5 - April 9.....	13,642	10,754	9,108	33,504
Amount required to be sent from mill to port for the week April 5 to April 11.....	15,000	13,000	15,000	43,000

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

April 10, 1942

Source: Procurement Division, Treasury Department.

Bottom cargo for Russians sent from mills to Philadelphia,  
total March 30 to April 4 and daily April 5 to 9, 1942

Name of company and commodity	Tonnage					
	Total March 30 to April 4	Sunday April 5	Monday April 6	Tuesday April 7	Wednesday April 8	Thursday April 9
<u>Brass</u>						
American Brass Co.....	1,156		231			191
Chase Brass & Copper Co.....	96			39		
Revere Copper & Brass Co.....	84		40		39	17
Snovill Manufacturing Co.....	108				39	
<u>Copper and brass</u>						
Revere Copper & Brass Co.....	127					
<u>Copper</u>						
Anaconda Wire & Cable Co.....						24
<u>Nickel</u>						
International Nickel Co.....				200		
<u>Steel</u>						
Allegheny Ludlum Steel Co.....	322		143	50	102	95
Alan Wood Steel Co.....					152	
American Rolling Mills.....	484					
American Steel & Wire Co.....	50		474	330	277	389
Arcon International Co.....	89				277	389
Bethlehem Steel Co.....	1,764	254	271	275	339	533
Blair Strip Steel Co.....	28					
Blair Strip Steel Co.....	50			50		
Brush Steel Co.....			50			
Cold Metal Products Co.....					15	
Collyer Insulated Wire Co.....						
Colorado Fuel & Iron Co.....	1,882					
Crucible Steel Co.....	91					
Firth Beerling Corp.....	17					
Ford Motor Co.....	2					
Great Lakes Steel Corp.....	1,630	197	140	332	432	319
Inland Steel Co.....	1,903		156	95	134	119
Johnson Steel & Wire Co.....					24	
Jones & Laughlin Steel Corp.....	398		393	332	41	30
Kelceyman Bros.....	20				145	75
Keystone Steel & Wire Co.....	30					
La Salle Steel Co.....	79					
Madison Wire Co.....	34		47			
McLouth Steel Co.....	881	51		47	51	126
Mid States Steel Co.....	25					
National Tube Co.....					185	
New England High Carbon Wire Co...						9
Newport Rolling Mills.....	200				45	45
Otis Steel Co.....	639		52	169	136	65
P & M Co.....				255		
Pittsburgh Steel Co.....	51				155	134
Republic Steel Corp.....	3,242		575	577	648	460
John A. Roebling & Sons.....	104				30	
Seneca Steel Co.....						
Sharon Steel Co.....	176					
Superior Steel Co.....	871		31	94	62	30
Thomas Steel Co.....	145		58	68	18	32
Thompson Steel & Wire Co.....	56			48		75
Union Drawn Steel Co.....	274		166	42	42	84
U. S. Steel Export Co.....	3,702				29	46
Universal Cyclops Co.....	45					
Vulcan Crucible Co.....				50	24	24
Wallingford Steel Co.....	72					
Washington Tinsplate Co.....	36					
Weirton Steel Co.....	1,302				69	21
Wheeling Steel Corp.....	2,105		569		191	144
Wyckoff Drawn Steel Co.....	80					
Youngstown Sheet & Tube Co.....	714				24	24
Undesignated.....	11					
<u>Miscellaneous</u>						
National Lock Washer Co.....	2					
Vanadium Corp.....	28	28	28			
Total.....	24,605	530	3,424	3,083	3,374	3,231

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

April 10, 1942

Source: Procurement Division, Treasury Department.

Bottom cargo for Russians sent from mills to Baltimore,  
total March 30 to April 4 and daily April 5 to 9, 1942

Name of company and commodity	Tonnage					
	Total March 30 to April 4	Sunday April 5	Monday April 6	Tuesday April 7	Wednesday April 8	Thursday April 9
<u>Brass</u>						
American Brass Co.....	96		47	47	47	94
Chase Brass & Copper Co.....	58		23		19	
<u>Copper</u>						
Wolverine Tube Co.....	10					
<u>Steel</u>						
Allegheny Ludlum Steel Co.....	352				11	
American Rolling Mills.....	360			64		64
Bethlehem Steel Co.....	21					19
Elair Strip Steel Co.....	53					
Cold Metal Products Co.....	18				36	
Colonial Steel Co.....	537	146		257	340	285
Great Lakes Steel Co.....						
Inland Steel Co.....	24					
Johnson Steel & Wire Co.....	1,592			870	1,084	1,236
Jones & Laughlin Steel Corp.....	227				105	149
Keystone Steel & Wire Co.....	111				51	
Otis Steel Co.....					260	343
P & M Co.....	5,397		1,091	1,166		
Republic Steel Co.....			33			
John A. Roebling & Sons.....	13					26
Rustless Iron & Steel Co.....				28		32
Seneca Steel Co.....	128		32	29	28	
Sharon Steel Co.....	38					
Thomas Steel Co.....	611	225		45	476	1,039
U. S. Steel Export Co.....	25					
Universal Cyclops Co.....	4					
Washburn Wire Co.....	182			33	165	215
Weirton Steel Co.....	153			112		382
Youngstown Sheet & Tube Co.....	187					
Undesignated.....						
<u>Miscellaneous</u>						
Hubbard & Co.....	115					
Undesignated.....	67					
Total.....	10,379	371	1,226	2,651	2,622	3,884

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

April 10, 1942

Source: Procurement Division, Treasury Department.

Bottom cargo for Russians sent from mills to New York,  
total March 30 to April 4 and daily April 5 to 9, 1942

Name of company and commodity	Tonnage					
	Total : March 30 : to : April 4 :	Sunday : April 5 :	Monday : April 6 :	Tuesday : April 7 :	Wednesday : April 8 :	Thursday : April 9 :
<u>Brass</u>						
Phelps Dodge Co.....			113			
<u>Copper</u>						
United Wire & Supply Co.....	33					
<u>Steel</u>						
American Rolling Mills.....	1,225					
Armco International Co.....	541		134	141		
Bethlehem Steel Co.....	50					
Carnegie Illinois Steel Co.....	331					
Cold Metal Products Co.....	84	53				
Colorado Fuel & Iron Co.....	1,332					
Crucible Steel Co.....		274	76	28	323	350
Great Lakes Steel Co.....			27	266		
Halcomb Steel Co.....						
Heppenstahl Co.....	101					
Inland Steel Co.....	695		234		35	104
Jones & Laughlin Steel Corp.....	135		339	46	46	
Madison Wire Co.....	25					
McLouth Steel Co.....	54					
Otis Steel Co.....	652		37	74	328	260
P & M Co.....					51	
Pittsburgh Steel Co.....	1,349			547		542
Republic Steel Co.....	940		89	137	36	102
Sheffield Steel Co.....						65
U. S. Steel Export Co.....	1,336	40	73	100	334	953
Washington Tin Plate Co.....						34
Weirton Steel Co.....	117					45
Wheeling Steel Corp.....	78					
Wyckoff Drawn Steel Co.....	399		118	40	39	76
Youngstown Sheet & Tube Co.....	1,829	331	157	635	915	361
Total.....	11,306	698	1,397	2,014	2,107	2,892

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

April 10, 1942

Source: Procurement Division, Treasury Department.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 10, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the 11-day period ending March 31, 1942.

1. Exports to Russia

Exports to Russia, as reported to the Treasury during the eleven-day period ending March 31, 1942 amounted to more than \$40,000,000. Military tanks, landplanes and motor trucks were the principal items. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the period under review amounted only to approximately \$2,000. (See Appendix D.)

Exports to Burma during the same period amounted to approximately \$2,000. (See Appendix E.)

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Most important were exports to Sweden amounting to about \$2,000,000.

SUMMARY OF UNITED STATES  
DOMESTIC EXPORTS TO SELECTED COUNTRIES  
AS REPORTED TO THE TREASURY DEPARTMENT  
FROM EXPORT DECLARATIONS RECEIVED  
DURING THE PERIOD INDICATED 1/

July 28, 1941 to March 31, 1942.

(In thousands of dollars)

	July 28 to <u>Mar. 10</u>	Period ended <u>March 20</u>	Period ended <u>March 31</u>	Total <u>Domestic Exports</u>
U. S. S. R.	\$208,194	\$ 28,554	\$ 42,435	\$ 279,183
Free China	52,635	8,058	2	60,695
Burma 2/	11,105	3	2	11,110
France 3/	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	28	-	-	28
Spain	2,833	-	5/	2,833
Switzerland	7,399	7	273	7,679
Sweden	13,849	6	2,045	15,900
Portugal	6,931	2	478	7,411
French North Africa 4/	6,283	-	-	6,283

Treasury Department, Division of Monetary Research

April 7, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular week. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

2/ From September 11, 1941 to date — It is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

3/ Includes both Occupied and Unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.

4/ Includes Morocco, Algeria and Tunisia.

5/ Less than \$500.

Exports from the U. S. to Free China, Burma and  
U.S.S.R. as reported to the Treasury Department  
July 28, 1941 - March 31, 1942  
(Thousands of Dollars)

	Exports to Free China	Exports to Burma 3/	Exports to U.S.S.R.
28 - Aug. 2	395		4,523
4 - Aug. 9	-		551
11 - Aug. 16	309		986
18 - Aug. 23	2		2,735
25 - Aug. 30	1		1,023
2 - Sept. 6	204		4,280
8 - Sept. 13	2,281 2/		5,217
15 - Sept. 20	3,822 2/		752
22 - Sept. 27	110	449	2,333
29 - Oct. 4	1,225	684	323
6 - Oct. 11	5,312	1,157	6,845
13 - Oct. 18	5	35	1,924
20 - Oct. 25	269	403	5,623
27 - Nov. 1	4,772	58	4,484
3 - Nov. 8	1,672	342	4,552
10 - Nov. 15	2,851	88	2,677
17 - Nov. 22	1,228	1,021	3,581
24 - Nov. 29	3,239	1,364	2,436
1 - Dec. 6	791	64	3,609
8 - Dec. 13	2,337	18	12,040
15 - Dec. 20	111	8	4,580
22 - Dec. 27	1	196	1,829
29 - Jan. 3	35	2	3,993
5 - Jan. 10	91	1,073	8,247
12 - Jan. 17	1,695	447	5,874
19 - Jan. 24	-	-	3,885
26 - Jan. 31	6,938	923	9,608
1 - Feb. 10 4/	4,889	1,054	13,315
10 - Feb. 20	4,853	583	26,174
20 - Feb. 28 5/	2,921	-	28,119
1 - Mar. 10	2,879	23	32,509
10 - Mar. 20	8,058	3	28,556
20 - Mar. 31 6/	2	2	42,435
Total	63,298	9,997	279,618

These figures are in part taken from copies of shipping manifests. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China. It is presumed that a large percentage of exports to Burma are destined for Free China. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.  
8-day period.  
11-day period.

## APPENDIX C

Principal Exports from U. S. to U. S. S. R.  
as reported to the Treasury Department  
during the eleven-day period ending  
March 31, 1942

(Thousands of Dollars)

Total Exports	\$ 42,435
Principal Items:	
Military tanks and parts - medium	6,226
Landplanes - Douglas A-20-C	6,000
Motor trucks and chassis	3,219
Pork, salted and canned	2,179
Landplanes - Curtiss P-40-E	1,801
Cartridge brass sheets	1,637
Dried eggs	1,547
Military tanks and parts - light	1,531
Explosive shells (75 mm. and detonating fuses)	1,453
Steel plates, sheets and strips	1,184
Tin plate	917
Metallic cartridges and cartridge links	893
Insulated copper wire	810
Molybdenite concentrates	803
Grinding machines and parts	794
Hams and shoulders	746
Sole leather	597
Explosive shells (37 mm.)	582
Reconnaissance cars (jeeps) - 1/4 ton	545
Internal-combustion marine engines	532
Boots and shoes	517
Lard	500

## APPENDIX D

Principal Exports from U. S. to Free China  
as reported to the Treasury Department  
during the eleven-day period ending  
March 31, 1942

(Thousands of Dollars)

Total Exports	\$ 2
Principal Item:	
Other industrial chemicals	2

Treasury Department, Division of Monetary Research      April 9, 1942

## APPENDIX E

Principal Exports from U. S. to Burma  
as reported to the Treasury Department  
during the eleven-day period ending  
March 31, 1942

(Thousands of Dollars)

Total Exports	\$ 2
Principal Items:	
Sewing machine parts	1
Therapeutic apparatus and parts	1

230

Treasury Department  
Division of Monetary Research

Date...4-10-42.....19

To: Miss Chauncey

From: H. D. White

The Secretary will be interested  
in glancing at this.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 10, 1942.

TO Secretary Morgenthau

FROM Mr. White

Subject: Digest of cables from Wasserman to Stettinius on the supply situation in Australia.

1. There is a critical lack of fighter and transport aircraft in Australia. Americans there urgently request Lend-Lease for any planes of this type which are available. Australia promises to provide the crews.
2. American authorities in Australia urge that Australian procurement be changed to a direct one with Washington. They report the amount of English material arriving there is small and they believe the prospects of receiving large quantities are poor, as long as England is otherwise busily engaged. They request Lend-Lease to interfere with London to get delivery of two British items urgently needed--Bofors anti-aircraft guns and aviation radio detector apparatus.
3. About \$25 million of Dutch war materials arrived in Australia in Dutch ships following the fall of Java.
4. American authorities in Australia urge the retention of Dutch seagoing ships on the Australian run and the preservation of the coastal craft for ultimate offensive operations. They think the latter may be the means of overcoming a bad transportation situation in Australia. American officials there have been given authority to deal with the small boats. The decision concerning seagoing vessels lies with the shipping authorities here.
5. Lend-Lease people in Australia report Dutch authorities displayed "a very reasonable and helpful attitude" throughout.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission  
who enclose Statement No. 28 - Aircraft Despatched  
- for week ended April 7, 1942.

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

April 10, 1942.

TOP SECRETSTATEMENT NO. 28AIRCRAFT DESPATCHED FROM THE UNITEDSTATES DURING WEEK ENDED APRIL 7th, 1942

	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CAN.
	U.K.	U.K.	1		
Fortress II	U.K.	Canada en route		1	
Crane LA	CANADA	CANADA			3
<u>UNITED STATES</u>					
Fort II	U. K.	Canada en route		1	
Fort IV	Middle East	Port Sudan	4		
<u>INDIA</u>					
	U. K.	U. K.	4		
<u>MIDDLE EAST</u>					
	Middle East	Port Sudan	23		
	India	Bombay	3		
<u>AUSTRALIA</u>					
	Australia	Sydney	11		
	U.K.	U.K.		26	2
	Canada	Canada		6	
	U.K.	Canada en route			
<u>NORTH AMERICAN</u>					
	U. K.	Canada en route		1	2
	Canada	Canada			
<u>TOTALS</u>			46	35	7

British Air Commission  
April 9th, 1942.

# TREASURY DEPARTMENT

234

## INTER OFFICE COMMUNICATION

DATE April 10, 1942

TO Mr. White  
FROM Mr. HoFlich  
Subject: New British Minister of Production

We have received from Casaday information on Mr. Oliver Lyttelton's Parliamentary statement on his powers and functions as Member of the War Cabinet responsible for Production.

1. The powers conferred upon Mr. Lyttelton put him in charge of the importation, production, and allocation of raw materials and machine tools. The Ministry of Supply will continue to administer the production controls already set up for these supplies.

The field of labor is made the joint responsibility of the Production and Labor Ministries. The Production Minister is given the primary responsibility of determining the relative importance of the various demands for labor, and the Labor Minister is responsible for supplying this labor.

In the shipping field the Admiralty will continue to control the design, construction and armament of naval vessels, and the construction, defensive equipment and repair of merchant vessels. But the Production Minister's powers in regard to allocation of raw materials, machine tools and labor apply to the Admiralty program as to others.

Any Ministry may appeal a Ministry of Production decision to the War Cabinet.

2. Mr. Lyttelton also spoke briefly of the organization of the Production General Staff which he proposes to set up, composed of Navy, Army and Air Force officers, and representatives of the Production Ministries supplying the armed forces. This General Staff will work in close touch with the supply organizations of the United Nations.

3. The new Minister promised to introduce a greater measure of regional production control, broadening the functions and responsibilities of local control bodies.

4. Mr. Lyttelton's statement created a distinctly favorable impression in Parliament and the press, but there appeared to be a withholding of final judgment to see how the plan would work out in practice.

Division of Monetary  
Research

- 2 -

The Financial News was critical of the mere "negative control over the building of ships . . . probably the most vital of all war supplies". This paper was also impatient at the lack of detail in the description of the new Ministry's functions.

5. The White Paper describing Beaverbrook's powers as Minister of Production has been withdrawn. No new White Paper is to be issued defining Iggelton's functions and powers, because, according to the Minister, "to work upon a charter over such an extremely wide and varied field would be extremely difficult and would involve a very long document of almost legal precision when something much more flexible is required".

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 10, 1942

TO Secretary Morgenthau  
 FROM Mr. Kamarck  
 Subject: The British Import Position

(The following might be of interest. It is based on figures compiled from the British operational reports.)

1. According to Lord Lothian's memorandum of November, 1940, the desirable program of imports into the United Kingdom was 43 million tons a year of supplies other than oil. Sir Arthur Salter's memorandum of February, 1942 pointed out that the actual program achieved in 1941 was only 30.5 million tons a year, or less than in 1917, the worst year of the last war when 34 million tons were imported.

2. In the first quarter of 1942, the volume of imports declined still further. In this period, imports into the United Kingdom were at the rate of only 23 million tons a year. This is somewhat better than the 21 million ton rate that Sir Arthur had anticipated for the first three months of 1942, but is still dangerously low.

3. The volume of imports have been rising from the low point reached in January, but even in March, imports were only at the rate of 26 million tons a year.

The detailed figures of monthly imports, other than oil, into the United Kingdom in the last five months, are as follows:

November, 1941	2.1 million tons
December, 1941	2.8 " "
January, 1942	1.7 " "
February, 1942	1.9 " "
March, 1942	2.2 " "

(preliminary)

Treasury Department **237**  
Division of Monetary Research

4/14/42  
Date.....19

To: Miss Chauncey

From: L. Shanahan

For your files. Mr. White  
showed the original to the Secretary.

SECRET

April 10, 1942

Dear Dr. White,

In continuation of previous correspondence I attach the figures of available gold and dollars as at March 6th, 13th, 20th and 31st.

We received an advance of \$40 millions against the R.F.C. Loan on the 28th February and a payment of \$40 millions from the R.F.C., for the strategic wool for the stockpile in this country, between the 20th and 31st March.

Yours sincerely,

/s/

T. K. BEWLEY

Dr. H. D. White  
Director of Monetary Research  
United States Treasury  
Washington, D. C.

AVAILABLE GOLD AND DOLLARS

	1942			
	Mar. 6	Mar. 13	Mar. 20	Mar. 31
Total Gold (including Belgian)	623	635	640	649
Official Dollar Balance	<u>32</u>	<u>25</u>	<u>28</u>	<u>71</u>
Total Gold and Dollars	655	660	668	720
Less: Belgian Gold	105	105	105	105
Scattered Gold	68	81	82	82
Gold reserve against immediate liabilities	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Available Gold and Dollars	<u>472</u>	<u>464</u>	<u>471</u>	<u>523</u>

Washington, D. C.  
April 10, 1942

## DEPARTMENT OF STATE

Washington

April 10, 1942

In reply refer to  
FD 740.00112A European War,  
1939/9488

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of confidential despatch No. 4549, dated March 25, 1942, from the American Embassy, Buenos Aires, Argentina, reporting concern felt by the Brazilian Government regarding the transfer of funds to and from the Axis countries through Switzerland and Sweden and by way of Buenos Aires; expression of this concern to the Argentine Government.

## Enclosure:

Despatch No. 4549, dated  
March 25, 1942, from the  
American Embassy, Buenos  
Aires, Argentina.

Buenos Aires, Argentina, March 25, 1942.

C  
O  
F  
Y  
No. 4549

Subject: CONCERN FELT BY THE BRAZILIAN GOVERNMENT REGARDING  
THE TRANSFER OF FUNDS TO AND FROM THE AXIS COUNTRIES  
THROUGH SWITZERLAND AND SWEDEN AND BY WAY OF BUENOS  
AIRES: EXPRESSION OF THIS CONCERN TO THE ARGENTINE  
GOVERNMENT.

CONFIDENTIAL

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report that the Brazilian Ambassador, Dr. Rodrigues Alves, has informed me that he has received instructions to express to the Argentine authorities the concern felt by his Government regarding the transfer of funds to and from the Axis countries through Switzerland and Sweden and by way of Buenos Aires.

Respectfully yours,

Copy to the Embassy at Rio de Janeiro.

File No. 851  
JWG:je

A true copy of the signed original - J.E.

AS

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

Sydney

Dated April 10, 1942

Rec'd 3:06 p.m.

Secretary of State,  
Washington.

216, April 10, 5 p.m.

"Referring to the Department's telegram number 100, March 14, aggregate amount Treasury checks received from Commonwealth Bank last night" \$23948.85.

Will the Department please authorize the use of some specified code group meaning everything in the above quotation.

PALMER

LMS

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

Cairo

Dated April 10, 1942

Rec'd 12:45 p.m., 12th

Secretary of State,  
Washington.

560, April 10, 3 p.m.

Department's 184, March 4, 7 p.m., third paragraph.

Inform Treasury that Barclay's bank on April 10  
deposited three checks totaling \$570.46.

Checks will be forwarded by next pouch.

KIRK

WSB

April 10, 1942

Mr. Liversy

Mr. Metrick

Will you please send the attached cable to the American Embassy,  
London, England.

EB:lsq-4/10/42

To **L. V. Gussler**  
**American Embassy**  
**London, England**

From **The Secretary of the Treasury**

If available please cable (1) total United Kingdom direct tax liabilities and (2) total United Kingdom personal income after deduction of direct tax liabilities, from calendar or fiscal year 1938 to date. These are items 15 and 17 of Table B in White Paper, Command 6611, of April, 1941. Also, please send by air post any available data showing number of persons in various income groups in the United Kingdom 1938 to date. This information is requested by the Office of Price Administration.

EJE-ef 4/8/42  
Copyline 4/10/42

## TELEGRAM SENT

LWH  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
Agency (Br)

April 10, 1942

6 p.m.

AMEMBASSY

LONDON

1511

FOR CASADAY FROM SECRETARY OF THE TREASURY.

QUOTE If available please cable (1) total United Kingdom direct tax liabilities and (2) total United Kingdom personal incomes after deduction of direct tax liabilities, from calendar or fiscal year 1938 to date. These are items 15 and 17 of Table B in White Paper, Command 6261, of April, 1941. Also, please send by air pouch any available data showing number of persons in various income groups in the United Kingdom 1938 to date. This information is requested by the Office of Price Administration. END QUOTE

WELLES  
ACTING  
(FL)

FD:FL:ME

COPY

DEPARTMENT OF STATE  
WASHINGTONIn reply refer to  
FD 240.51 Frozen Credits/5716

April 10, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of telegram 162, from the Department to Vichy under date of March 11, 1942 and Vichy's reply thereto, telegram 401 under date of March 17, 1942, concerning an alleged French decree emanating from Paris affecting the accounts of Jewish clients in payments in unoccupied France. The substance of telegram 401 from Vichy has been conveyed to the American Express Company which made inquiry of this Department concerning the matter under reference.

## Enclosures:

1. To Embassy, Vichy.  
no. 162, March 11, 1942
2. From Embassy, Vichy.  
no. 401, March 17, 1942.

COPY:lap-4/10/42

COPY

TELEGRAM SENT

PH

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

March 11, 1942

6 p.m.

AMERICAN EMBASSY

VICHY

162

Department informed by American Express Company that recent regulations require banks in the unoccupied zone to report for purposes of freezing securities belonging to Jewish clients and those considered enemies of Germany report apparently to be made to Devisenschutzkommando, Paris. Please confirm existence of such regulations and report if applicable to branches American banks in unoccupied France.

WELLES  
ACTING  
(PTC)

840.51 Frozen Credits/5589  
EU:JWJ:IED FD LE

COPY:lap-4/10/42

COPY

## TELEGRAM RECEIVED

FROM (Paris)  
Vichy

Dated March 17, 1942

Rec'd 3:35 p.m.

Secretary of State,

Washington.

401, March 17, 11 a.m. (SECTION ONE)

Department's 162, March 11, 6 p.m.

Local American and French banks as well as official sources state that no regulations of this kind are in force in unoccupied France. It seems clear that the French Government has taken no measures to further the execution in the unoccupied zone of German decrees of this nature which of course would have legal force only in occupied France. It is possible nevertheless that the German occupation authorities might bring pressure on banks in occupied France to oblige them to report such information held by their branches in the free zone. No evidence of such pressure, however, has come to the notice of the Embassy thus far. Local American banks state they have never executed in unoccupied France decrees emanating from the German authorities at Paris.

LEAHY

COPY:lap-4/10/42

CCPY

LM

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

(Paris)  
Vichy

Dated March 17, 1942

Rec'd 6:09 p.m.

Secretary of State,

Washington.

401, March 17, 11 a.m. (SECTION TWO).

About two months ago the Guaranty Trust Company at Paris received an order from the Devisen Schutz Kommando to produce the books of their Vichy bank in execution of the German decree of June 1940 relative to declaration of foreign securities. After some negotiations, however, the German authorities apparently abandoned this demand since their latest requirements relate only to the occupied zone.

The French Government has not thus far issued any general regulations requiring that Jewish holdings be declared. Jews in the free zone under present regulations are free to dispose of their holdings except in cases where a provisional administrator has been appointed. In such cases the assets are frozen pending definitive settlement.

Will follow and report as information becomes available.

(END OF MESSAGE)

LEAHY

GW

COPY:lap-4/10/42

C  
O  
P  
Y

251

NWN

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

Calcutta

Dated April 10, 1942

Rec'd. 7:49 a.m.

Secretary of State,  
Washington.

HUSH

254, April 10, 10 a.m.

Your 68, February 28, 2 p.m.

Please advise Treasury Department checks aggregating \$9,569.43 have been received from Calcutta office of National City Bank of New York whose manager reports that advice of payment is regularly received from head office in consequence of which separate confirmation of payment not (repeat not) necessary.

SCHNARE

NPL

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 10, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£33,000
Purchased from commercial concerns	£ 9,000

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

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

Canadian dollar	13-1/4% discount
Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2830
Cuban peso	3/32% premium

There were no gold transactions consummated by us today.

No new gold engagements were reported.

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

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

We made no purchases of silver today.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

CPTEL No. 11B

Information received up to 7 A.M., 10th April, 1942.

1. NAVAL

MALTA. Air Attacks, 8th. One of H.M. Destroyers was pierced by a direct hit which did not explode. She was flooded forward but the water is under control. Two minesweeping trawlers were damaged. 9th. Another H.M. Destroyer was further damaged and the Naval Canteen received a direct hit.

EAST INDIES. H.M. aircraft carrier, destroyer, corvette and 8 Fleet auxiliaries left TRINCOMALEE on the evening of the 8th to evade air attack but were sighted by enemy aircraft. On the morning of the 9th the aircraft carrier was attacked and sunk by dive bombers off the east coast of CEYLON. It is feared that the destroyer, corvette and possibly a tanker were also sunk. 200 survivors have been picked up. 6 of the auxiliaries, including a minesweeper have returned to TRINCOMALEE. Early on the 9th an enemy force consisting of 4 aircraft carriers, 3 battleships, 4 or 5 cruisers and 2 destroyers were sighted by our aircraft 180 miles east of TRINCOMALEE.

2. MILITARY

LIBYA. 8th. N.M.T. forward columns of U.K. and South African troops attacked enemy digging defences 7 miles east of EL AGGARÁ and another enemy force at SIDI BREGHISO. The enemy is now believed to have reduced his forces in the forward area.

BURMA. SITTANG Front. North of TUONGOO the Chinese are still holding MA just north of YEDASHE. The Japanese have reached MARCHI where the tin mines were denied to the enemy but 1,200 gallons of petrol had to be abandoned.

3. AIR OPERATIONS

WESTERN FRONT. 8th/9th. About 250 tons of H.E. and incendiaries were dropped over the HAMBURG area but owing to bad weather most aircraft bombed on estimated time of arrival. 30 R.C.A.F., 25 R.A.A.F. and 5 New Zealand aircraft took part, 2 Canadian aircraft were amongst those lost.

MALTA. Between 1.0 P.M. 8th and 10.45 A.M. 9th a total of 183 enemy aircraft attacked. Further damage was caused at GRAND HARBOUR but a marked decrease in bombing accuracy is now noticeable. Fighters and A.A. destroyed 5 enemy aircraft and damaged 2.

- 2 -

CEYLON. On the morning of the 9th 27 enemy bombers and a large number of fighters attacked TRINCOMALEE. Preliminary reports indicate considerable damage to hangars and buildings at CHINA BAY and a large fire, probably oil, at TRINCOMALEE. 7 enemy aircraft are reported destroyed, 7 Hurricanes and one Naval Fulmar are missing. 9 Blenheims sent to attack the enemy naval force claim 3 near misses on an aircraft carrier. 5 Blenheims are missing.

BURMA. 8th. 27 enemy bombers attacked MAYMYO causing damage to the Remount Depot, the same formation later attacked MANDALAY. LOIWING landing ground was machine-gunned by about 20 Japanese fighters.

#### 4. MALTA

The scale of attack against MALTA is the most concentrated and sustained in the history of air warfare. The March effort of about 100 Sorties per 24 hours has risen to over 200 per 24 hours during the last week. This intensity is likely to decrease towards the end of the month and as soon as full scale operations start on the Russian Front MALTA will almost certainly have a large measure of relief. By her opposition MALTA has weakened Rommel's ability to strike at Egypt by causing wastage and consumption of stocks which the German Air Force can ill afford, the German air effort against RUSSIA has also been weakened, since nearly all the German squadrons attacking MALTA came originally from the Russian Front. Field Marshal Kesselring failed against us in the Battle of Britain and also against MOSCOW. If he fails against MALTA German Air Force prestige will suffer heavily.

#### 5. NORTH RUSSIA CONVOYS

It is estimated that there are between 150 and 175 German Long Range Bomber types between TRONDHEIM and PETSAMO suitable for anti-shipping operations.

April 11, 1942  
8:40 a.m.

HMJr: Hello.

Robert  
Doughton: All right.

HMJr: Henry talking.

D: All right, Henry. How are you?

HMJr: Fine.

D: That's good.

HMJr: I wondered if I would be lucky enough to try to get you and Walter George to have lunch with me today.

D: Today?

HMJr: Yeah.

D: What time?

HMJr: Oh, one o'clock.

D: I've got to be here at two-thirty on an appointment.

HMJr: Yeah.

D: Can't we see you without bothering about the lunch - come down, say, sometime later this afternoon or before that time?

HMJr: Well, supposing I see about Walter George. Hello.

D: How's that?

HMJr: I'll find out if Walter George is in town or what - supposing I call him and find out what time would be convenient.

D: I think he's here. We could come down, I think most - I have to be here at two-thirty.

- 2 -

HMJr: Well.....

D: And so I thought - there's a lot of things to do today.

HMJr: Yeah. Well, do you have hearings this morning?

D: No, I don't have any hearings this morning.

HMJr: Well, let me call him up, and I'll call you back, and I'll find out what's the best time for him.

D: And see what he can do. All right.

HMJr: How's that?

D: That'll be all right, thank you.

HMJr: Thank you.

D: Good-bye.

April 11, 1942  
8:44 a.m.

HMJr: Hello.

Senator  
George: Hello, Henry.

HMJr: I hope you don't mind my calling you at your home.

G: No, not at all.

HMJr: Walter, I wondered if I could get together with you and Bob Doughton sometime either this forenoon or for lunch - whichever suited you best. Doughton is in town.

G: He is?

HMJr: Yes.

G: Well, Henry, I have one engagement this morning.....

HMJr: Yeah.

G: .....that I recall - I haven't gotten over to my office yet.

HMJr: I know.

G: I expect lunch hour would be better.

HMJr: Well, would you care to have lunch at the Treasury around one o'clock?

G: Yes, I'd be glad to come up. Can we get in there?

HMJr: (Laughs) Yeah, you can get in. You know which entrance to come at now?

G: Yes. Where we came before, I suppose.

HMJr: Yes.

G: Yes, that will be all right with me if it suite Bob.

HMJr: Well, Bob says the only appointment he had was

- 2 -

for two-thirty; so if we have lunch at one, he can keep his two-thirty appointment.

G: Yes. Well, I'll be glad to - I'll get in touch with him when I get over there, and we'll get over there together, probably.

HMJr: Fine.

G: All right.

HMJr: I'll look forward to seeing you.

G: All right.

HMJr: Thank you.

G: All right.

April 11, 1942  
8:46 a.m.

HMJr: Hello.

Operator: Congressman Doughton.

HMJr: Hello.

Robert Doughton: All right, Henry.

HMJr: I got Walter George at his home.

D: All right.

HMJr: And he said that lunch would be the best for him. Hello.

D: I hear you.

HMJr: But you could be up there easily by two-thirty or earlier, Bob.

D: Well, if I can do that, that'll be all right.

HMJr: Oh, sure.

D: All right.

HMJr: You can - I'll get you up there long before that.

D: That'll be all right. Come to your office?

HMJr: Yes. And he said he'd get in touch with you, because he'd like to ride down with you.

D: That'll be fine. What time will you expect us down?

HMJr: About one o'clock.

D: All right. All right, that's fine.

HMJr: You'll get up there in plenty of time.

D: All right. Thank you very kindly.

HMJr: I'll look forward.

D: All right. Thank you. Good-bye.

260

April 11, 1942

Discussed in Secretary's office at 9 am  
with Judge Rosenman, Paul, Blough and Kuhn  
present.

*Mr. P. ... to ...*  
4/1/1261  
9  
meeting

Memorandum on Individual and Corporate Tax  
Rates Under the Treasury Proposals  
of March 3, 1942

At a time when heavy sacrifices are required of every American, whatever his income, it is imperative that the financially fortunate among us shall bear their proportionate burden and that profits arising out of our national peril shall be taxed to the limit.

The provisions of the Administration's tax proposal submitted to Congress on March 3, 1942, accomplish these objectives.

Individuals

Let us take the individuals first. The Administration's tax proposals would increase the annual income tax bill of American individuals and families from \$5,000,000,000 to more than \$8,000,000,000. This increase is distributed in such a manner as to place a commensurate financial burden upon individuals who are best able to pay for the cost of war. For example, a taxpayer receiving an income of \$100,000 a year will pay \$69,000 in Federal income tax; for every additional dollar he may receive above that amount he will pay 90 cents in Federal income tax. A taxpayer receiving an income of \$1,000,000 a year will pay \$880,000 in Federal tax. These figures do not take into account income taxes imposed by the States.

- 2 -

It may be instructive to compare the Treasury individual income tax proposals with the rates imposed on the same incomes in Great Britain and Canada. Great Britain, which has traditionally relied more heavily upon the income tax than the United States, imposes somewhat higher individual income taxes in the examples given. A British citizen receiving an income of \$100,000 a year pays an income tax of \$54,000. On the other hand, a Canadian citizen with a similar income pays an income tax of only \$62,000. The proposed Treasury rates thus approximate the general level of income taxes found acceptable in two of the leading Allied Countries.

#### Corporations

The Administration's proposals call for heavy additional corporate taxes. The existing revenue laws impose an aggregate corporate tax of \$7,000,000,000 at estimated 1942 levels of income. The Administration's proposals would increase corporate tax collections by more than \$3,000,000,000, making a total tax liability for American corporations of more than \$10,000,000,000.

Corporate earnings would, under the Administration's proposals, be subject to a combined normal and war surtax of 55 percent. Small corporations, however, would be taxed at lower rates. Furthermore, corporations whose earnings

- 3 -

have declined since the pre-war years 1936 to 1939 would not be subject to tax at the full 55 percent, but might be subject to a rate as low as 35 percent. In addition, an excess profits tax ranging from 50 to 75 percent would be imposed.

Tax rates applicable to corporations under the Administration's proposals are particularly designed to reach extra-profits arising out of the war. A corporation receiving more than \$500,000 of excess profits--and most excess profits accrue to such corporations--would pay Federal taxes of 88-3/4 cents on every additional dollar it received. Of this amount, 8-3/4 cents would be set aside as a post-war rebate to be returned to the corporation after the war, provided it was then spent for the purpose of reemploying labor during the post-war readjustment period.

In Canada the maximum rate on a dollar of corporate profits is 79-1/2 cents, as compared to the 88-3/4 cents proposed by the Secretary of the Treasury. Great Britain imposes an excess profits tax which in the first instance is 100 percent, but 20 percent is set aside for repayment to the corporation after the war.

The maximum tax rates on excess profits in Great Britain and Canada and proposed for the United States are nearly identical when allowances are made for the amounts to be repaid after the war. After allowance for these rebates,

the maximum rate in Great Britain is 80 percent, in Canada 79.5 percent, while in the United States it would be 80 percent.

#### Combined Individual and Corporate Taxes

For a comprehensive picture of the impact of our tax proposals it is necessary to consider the total tax imposed on dollars earned by a corporation and distributed to its shareholders.

Let us see what happens to a dollar of corporate profits subject to the maximum excess profits tax rate. The Government first takes 88-3/4 cents of the dollar, leaving the corporation 11-1/4 cents. Suppose the corporation pays this 11-1/4 cents out to a stockholder having taxable income of more than \$100,000. On the 11-1/4 cents received as a dividend, this stockholder would be subject to a tax of 10-1/8 cents. (These figures do not include State taxes on either the corporation or the individual.) Thus, out of \$1.00 of corporate excess profits, the Government would receive 99 cents and the stockholder 1 cent.

#### Loopholes

The Administration not only proposes to place very heavy tax rates on high incomes; it proposes that these rates shall not be merely paper rates but really effective rates. It calls for the elimination of loopholes through which much income, especially income in high brackets, escapes its fair

- 5 -

share of taxation. It calls for the elimination of the tax exemption of interest on State and local securities, for joint returns by married persons, for a substantial increase in the rates of tax on capital gains, for the disallowance of percentage depletion, and for the denial of all special privileges remaining in the existing tax structure. The removal of all such privileges is an essential part of any war tax program requiring stringent sacrifices by all our citizens.

April 11, 1942  
10:13 a.m.

HMJr: Hello.

Operator: Mr. Early is busy talking, and she thinks it will be a long conversation.

HMJr: Well, whenever he's free I'd like to talk to him.

Operator: All right.

HMJr: Tell him it's important.

Operator: Right.

10:27 a.m.

Operator: Go ahead.

HMJr: Hello.

Stephen  
Early: Hello, Henry. Steve.

HMJr: How are you?

E: All right, sir.

HMJr: Steve, I haven't called you up on this particular complaint in years, so I think you'll listen to me. You know we've been all working with the President along - helping him to get something ready, you know.

E: Yeah.

HMJr: And I think from his standpoint and also in a secondary way from ours, it's most unfortunate the stuff that the OPA pours out, trying to make their case in the newspapers.

E: Uh huh.

HMJr: The best story is in the Wall Street Journal on page three.

E: Yeah. Well, I don't get that paper.

- 2 -

HMJr: Well, can you.....

E: Sure. What's the nature of it, Henry?

HMJr: Well, it's OPA - Office of Price Administration says this, this, this, this - I mean, they're stating the whole thing.

E: Uh huh.

HMJr: I mean, their side of the story, and trying to win the their battle through the papers.

E: Yeah.

HMJr: Well, when the President's trying to make up his mind, I don't think any of us should do that.

E: Uh huh.

HMJr: That's the point.

E: Yeah.

HMJr: What?

E: I'll talk to.....

HMJr: If you want me to, I'll send this over to you.

E: I'll talk to Leon about it. I don't need it. I can talk to him on the basis of what you tell me.

HMJr: Well, I mean, it's just - OPA does this, OPA does that, officials in OPA.

E: Yeah.

HMJr: The whole thing all the way through, OPA officials.

E: Uh huh.

HMJr: Now, they asked me what we were going to do - Henderson, you see, came out with.....

- 3 -

E: Is it inflation stuff?

HMJr: Yeah.

E: Yeah. Yeah.

HMJr: And all I said was that the thing was as it was until the President said something different.

E: Yeah.

HMJr: But - and Eccles, for once, has kept quiet.

E: Yeah, I noticed that.

HMJr: But he - but this trying to make your case through the newspapers when the President is trying to make up his mind.

E: I'll talk to Leon and tell him to lay off. He'll do it.

HMJr: I thank you.

E: All right, sir.

HMJr: Good-bye.

E: Good-bye.

April 13, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Subject: China Loan

Meeting in the Secretary's Office, 11 A.M., April 11, 1942

Present: The Secretary, Mr. D. W. Ball, Mr. White,  
Mr. Bernard Bernstein, Mr. Southard

Mr. White outlined to the Secretary the contents of Dr. Kung's cable as transmitted by Dr. T. V. Soong, relating to the issue of bonds and savings certificates in China backed by \$200,000,000 from the \$500,000,000 credit. Mr. White particularly pointed out that: (a) We had received no information from the Chinese Government concerning these two projects until after they had been publicly announced in China; (b) there are several aspects of the two proposals which we would criticize and the initial response to the savings certificates in China has been poor; (c) Dr. Kung requests that \$200,000,000 be transferred immediately to two accounts to be opened in the Federal; (d) Dr. Kung requests that the \$200,000,000 be invested in United States Treasury obligations until it is needed.

Mr. Ball stated that while he had anticipated that the Chinese might request a transfer of some funds immediately, he was distressed at the request that \$200,000,000 be transferred to the Federal in a lump sum. He said he thought it was most unfortunate that we should be obliged to borrow \$200,000,000 and pay interest on it when the Chinese couldn't use the money.

The Secretary then said that he would call Dr. Soong in and would remind him of the assurances sent by the Generalissimo to the Secretary through Mr. Fox, to the effect that the Generalissimo had every desire and intention to consult fully with the Secretary on matters relating to financial aid to China and to the utilization of that aid. He would then tell Dr. Soong that he was very much hurt at having been informed of the Chinese bond and savings certificate proposals only after they had been definitively announced in the public press in China; and that he would like Dr. Soong to communicate this disappointment to the Generalissimo. He said that he would assure Dr. Soong, both at the beginning and the end of their conversation, that he, the Secretary, stood ready to transfer the \$200,000,000 to the Federal whenever the Generalissimo told him that China needed it. The Secretary asked those present what they thought of this approach.

Division of Monetary  
Research

Mr. White replied that he was disturbed because: (1) The financial aid agreement requires us to transfer sums to the Federal whenever requested by China and (2) we couldn't be at all sure exactly in what form the Secretary's communication would actually reach the Generalissimo; keeping in mind that it would have to go through both Soong and Kung, it seemed to him that the risk of distortion was rather great.

Mr. Bernstein recalled to the Secretary the history of our discussion of the consultative provision with the Chinese during the negotiations. He reminded the Secretary that we had finally given in to the Chinese and that all we had from them was a letter from Dr. Soong assuring us that China would keep us informed. He said further that our idea throughout had been to consider China as a fully sovereign ally and that he was afraid that we would be departing from that spirit if, on the occasion of China's first mistake, we were to complain in any way that we had not been consulted. As to the transfer of the \$200,000,000, Mr. Bernstein said that of course the agreement made our obligation perfectly clear.

The Secretary said that as to the matter of the investment of the \$200,000,000 in United States Government obligations, it seemed to him clear that once sums were transferred to the Chinese account in the Federal the Chinese could do as they pleased with them and Mr. Bell indicated his agreement with this position. The Secretary said further, in reply to the arguments of Mr. White and Mr. Bernstein, that he saw this whole situation as one involving his own relationship with the Generalissimo. In elaborating this he said he felt that he would have no better occasion to discover whether the Generalissimo was a man of his word. He reminded those present that when he, the Secretary, had assured the President that the present Russian Government had lived up to its financial obligations in every way, that the President had referred to this many times as indicating that the Russian Government could be trusted. The Secretary asked how we could, for example, send 100,000 American troops to China if we could not depend on the Chinese Government in a financial matter.

The Secretary agreed that we would have to take every precaution to see that his message got to the Generalissimo without distortion. He said that Mr. Currie should be brought in for the discussion.

The meeting adjourned with the understanding that those present would prepare for the Secretary a message to the Generalissimo, expressing his keen disappointment that the Generalissimo had not kept him informed, in accordance with assurances he sent through Mr. Fox.

April 14, 1942

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Mr. White took this message from Dr. Kung  
together with suggested replies in to  
discuss them with the Secretary today.  
The Secretary said he had given T. V. Soong  
a verbal message to give to Dr. Kung and,  
therefore, it would not be necessary to  
submit a formal reply.



MINISTER FOR FOREIGN AFFAIRS  
REPUBLIC OF CHINA

April 2, 1942

My dear Mr. Secretary:

I am in receipt of a Chinese telegram from Dr. H. H. Kung, the contents of which he desires me to communicate to you.

I enclose the telegram in its English translation and shall be glad to transmit any reply which you may wish to send to him.

Yours sincerely,



The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury

SECRET

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TRANSLATION OF TELEGRAM FROM DR. H. H. KUNG, CHUNGKING

DATED MARCH 30, 1942

On March 24th, I made public our plan to issue US\$100,000,000 of 4% National Government Allied Victory bonds, and US\$100,000,000 of National Government U. S. Dollar Savings Certificates.

(a) National Government Allied Victory Bonds. These Bonds are to be issued by the Ministry of Finance at par, and the rate of exchange upon which these Bonds may be bought are to be fixed by the Ministry of Finance. This rate is fixed at US\$.06 equal to one yuan for purchases before June 30, 1942, which rate, however, is subject to reduction after that date. Drawings for the re-payment of the principal will be held semi-annually from April 1944 onwards. Note issuing banks are not permitted to invest in these Bonds or to grant loans on these Bonds.

(b) National Government U. S. Dollar Savings Certificates. The National Government will designate the four Government Banks as agencies to issue these Savings Certificates. These Savings Certificates shall be of three classes: One-year Savings Certificates bearing interest at 3%; Two-year Savings Certificates bearing interest at 3½%; and Three-year Savings Certificates bearing interest at 4%. The Savings Certificates shall be issued at par, at the rate of US\$.06 equal to one yuan.

The Bonds are for purposes of long-term investment; in order to strengthen the public confidence in fapi and also to induce prompt sales of the Bonds, the rate of exchange is fixed temporarily at US\$.06 equal to one yuan, since the rate should not be less than the current exchange rate of the Currency Stabilization Board, namely, US\$.05 9/32 equal to one yuan. The Savings Certificates are for short-term investment and will be useful to the trading and industrial circles for the provision of adequate Foreign Exchange for the purchase of machinery and pertinent materials in the near future. Hence, the rate is fixed at US\$.05 equal to one yuan.

Please also inform Secretary Morgenthau to the effect that the Ministry of Finance has designated the Central Bank of China as the Bank representing the National

Government, to occupy a position corresponding to the United States Federal Reserve Bank in the United States. Also, please request the Secretary of the Treasury to transfer US\$200,000,000 to the Federal Reserve Bank (of New York) for the account of the Central Bank of China. The Federal Reserve Bank (of New York) will be asked to open two new accounts to be designated as follows:

- (a) "The Chinese National Government Allied Victory U. S. Bonds Account," and,
- (b) "The Chinese National Government U. S. Savings Certificates Account."

These two accounts shall serve as foundation funds and security for the issue of the Victory Bonds and the Savings Certificates. As no withdrawal from these accounts is contemplated in the near future, please consult the U. S. Treasury Department and invest the funds in short-term United States Government Bonds or Treasury Notes, so as to yield interest.

The re-payment of the Bonds and Savings Certificates at maturity will, no doubt, principally be effected in U. S. dollars. However, it may be anticipated that a part of the re-payment will be effected in fapi by domestic banks, in which case please inform the Secretary of the Treasury that re-payment in American dollars from the foundation fund should be allowed to be made to China, to enable the Chinese Government to turn the fund over to the domestic banks making the advance to repay depositors desiring fapi.

I have already instructed the Central Bank of China to arrange with the Federal Reserve Bank (of New York) the necessary legal procedures in connection with designation of the former as the representative Bank of the National Government.

In accordance with the above, will you be good enough to request the Secretary to transfer the above mentioned US\$200,000,000 to the Federal Reserve Bank (of New York).



THE SECRETARY OF THE TREASURY  
WASHINGTON

Dear Dr. Soong:

Reference is made to your letter of April 2, 1942, enclosing telegram from Dr. H. H. Kung. I appreciate your forwarding Dr. Kung's telegram to me and I shall be glad if you will transmit the enclosed message to Dr. Kung.

Sincerely yours,

Secretary of the Treasury.

Dr. T. V. Soong,  
Minister of Foreign Affairs,  
Republic of China,  
Washington, D. C.

Enclosure

FOR DEFENSE



TO: Dr. Kung  
FROM: Secretary of the Treasury

Your telegram of March 30, 1942, was transmitted to me by Dr. Soong. In accordance with your request, we have transferred \$200,000,000 to the Federal Reserve Bank of New York for the account of the Central Bank of China and have directed them to open the two new accounts you designated as follows:

"The Chinese National Government Allied Victory U. S. Bonds Account" and "The Chinese National Government U. S. Savings Certificates Account".

With respect to the request in your telegram regarding transfers from your account with the Federal Reserve Bank to enable the Chinese Government to turn funds over to domestic banks effecting repayment in fapi, the contents of this paragraph are not clear to me and I would be glad if you would clarify it.

To: Dr. Kung  
From: Secretary of the Treasury

Your telegram of March 30, 1942 was transmitted to me by Dr. Soong. In accordance with your request, we have transferred \$200,000,000 to the Federal Reserve Bank of New York for the account of the Central Bank of China and have directed the Federal Reserve Bank, in accordance with your request to open two new accounts designated as follows:

"The Chinese National Government Allied Victory U. S. Bonds Account" and "The Chinese National Government U. S. Savings Certificates Account".

Your telegram also indicates that:

(1) The Minister of Finance has designated the Central Bank of China as the agency of the Government of the Republic of China in whose name as fiscal agent of China an account or accounts will be opened in the Federal Reserve Bank of New York to which transfers will be made from the credit established on the books of the Treasury in the name of the Government of the Republic of China, pursuant to Article I of such Agreement.

(2) That the Minister of Finance has designated the Central Bank of China as the agency which is authorized to draw upon and to give all manner of instructions respecting such account or accounts.

Kindly confirm this understanding.

With respect to the request in your telegram regarding transfers from your account with the Federal Reserve Bank to enable the Chinese Government

- 2 -

to turn funds over to domestic banks effecting repayment in fapi, the contents of this paragraph are not clear to me and I would be glad if you would clarify it.

April 11, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. White's office  
April 11, 1942  
11:30 a.m.

Present: Mr. White  
Mr. B. Bernstein  
Mr. Southard  
Mr. Friedman

Dr. Currie

The Secretary's decision taken at a meeting held in the Secretary's office at 11 a.m. that morning to call Dr. Soong in and remind him of the assurances sent by the Generalissimo to the Secretary through Mr. Fox was discussed. A draft letter to the Generalissimo from the Secretary was prepared expressing disappointment at the failure of the Chinese to discuss with the Secretary the uses of the funds before taking definitive measures and expressing willingness to transfer the \$200 million immediately. Mr. Fox was telephoned in New York to get his reactions and more particularly to find out what oral communications he had brought from the Generalissimo to the Secretary. By reference to Mr. Fox's diary it was found that the Generalissimo had said to Mr. Fox that he, the Generalissimo, would discuss the uses of the loan with American advisers.

It was the sentiment of all present that it would be a mistake to show any hesitation in handing over the \$200 million to the Chinese. It might cause a very bad reaction in Chungking and we had agreed to do so in the Agreement. Some opinion was expressed that it was wrong for the Chinese to take interest free funds and invest in American Government securities but it was pointed out that the Secretary had seen no objection to this.

It was decided to go to Mr. Bell's office and attempt to get some agreement on the question of the transfer of the funds.

ISF/efs  
4/13/42

APRIL 11, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. Bell's Office  
April 11, 1942  
12:00 noon

Present: Mr. Bell  
Mr. White  
Mr. B. Bernstein  
Mr. Southard  
Mr. Friedman

Dr. Currie

The question of the transfer of \$200 million to the Chinese as requested was discussed. Mr. Bell said that he still felt that the transfer should not be made until the Generalissimo had been communicated with. The objections to such action were again voiced but no agreement was reached.

A suggested change in the draft letter to the Generalissimo expressing disappointment but indicating willingness to transfer the funds immediately was made and in pencil on the same draft a possible alternative was written in to the effect that the funds would be handed over if the Generalissimo so directed.

ISF/efs  
3/14/42

April 11, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in the Secretary's Office  
April 11, 1942  
12:30 p.m.

Present: Secretary Morgenthau  
Mr. D. Bell  
Mr. White  
Mr. B. Bernstein  
Mr. Southard  
Mr. Friedman

Mr. Currie

Meeting was held to discuss reply to be given to Dr. Soong in response to Dr. Kung's telegram of March 30 transmitted by Dr. Soong on April 2nd. Dr. Currie urged that the Treasury raise no objection to making the requested transfer of \$200,000,000 and stressed that Treasury had agreed to leave out any consultation provision from the Agreement. Dr. Currie also said that he would inform the Generalissimo of the Secretary's disappointment.

Mr. White supported Dr. Currie's position. Mr. White submitted to the Secretary drafts of suggested replies to Dr. Kung, one agreeing to the immediate transfer of the funds and not expressing disappointment and another expressing disappointment and agreeing to immediate transfer. On the latter draft, the possible alternative of not transferring the funds until a reply from the Generalissimo was received, was also indicated.

The Secretary said that he would consult with Dr. Soong, asking his advice and would make it clear to Dr. Soong that the latter would be responsible for any action taken. He would tell Dr. Soong of his disappointment but would rely on Dr. Soong's judgment as to whether this disappointment should be expressed to the Generalissimo.

ISF/efa  
4/13/42

To: Dr. Kung  
From: Secretary of the Treasury

Your telegram of March 30, 1942 was transmitted to me by Dr. Soong. In accordance with your request, we have transferred \$200,000,000 to the Federal Reserve Bank of New York for the account of the Central Bank of China and have directed the Federal Reserve Bank, in accordance with your request to open two new accounts designated as follows:

"The Chinese National Government Allied Victory U. S. Bonds Account" and "The Chinese National Government U. S. Savings Certificates Account".

Your telegram also indicates that:

(1) The Minister of Finance has designated the Central Bank of China as the agency of the Government of the Republic of China in whose name as fiscal agent of China an account or accounts will be opened in the Federal Reserve Bank of New York to which transfers will be made from the credit established on the books of the Treasury in the name of the Government of the Republic of China, pursuant to Article I of such Agreement.

(2) That the Minister of Finance has designated the Central Bank of China as the agency which is authorized to draw upon and to give all manner of instructions respecting such account or accounts.

Kindly confirm this understanding.

With respect to the request in your telegram regarding transfers from your account with the Federal Reserve Bank to enable the Chinese Government

- 2 -

to turn funds over to domestic banks affecting repayment in fapi, the contents of this paragraph are not clear to me and I would be glad if you would clarify it.

4/11/42.

copied by gp 4/13/42

Secretary Morgenthau received from Dr. Kung the request to transfer \$200,000,000 to the Federal Reserve Bank of New York to be placed in accounts on behalf of the Government of China.

The Secretary assured Dr. Soong that he was prepared to carry out the transfer of the funds at once but he expressed to Dr. Soong his keen disappointment that China had not discussed in advance with the Treasury the proposals. He recalled to Dr. Soong that Generalissimo Chian Kai-shek had given oral assurances to the Secretary through Dr. Fox that the American authorities would be closely consulted as to the best use of the funds.

However, he reiterated his preparedness immediately to transfer the funds.

April 11, 1942  
12:53 p.m.

Operator: Operator.

HMJr: Mr. Bell, please.

Operator: Right. Mr. Bell.

Daniel  
Bell: Yes.

HMJr: Bell.

B: Yeah.

HMJr: On the advice of Dr. Soong.....

B: Yeah.

HMJr: .....I'd like you on Monday to deposit two hundred million dollars.

B: I can't do it, Mr. Secretary, until Monday.

HMJr: I say on Monday.

B: Yeah, but I can't - I haven't got it. I'll have to call it. Can you do it on Wednesday when we get payment for the.....

HMJr: Well, Wednesday's all right.

B: Wednesday.

HMJr: Yeah.

B: No, we don't have a hundred million dollars in the banks tonight.

HMJr: Well, you call the money and do it just as soon as it's feasible. What day will be feasible?

B: Well, I think we'll have it Wednesday, when payment for the 'certificates come in.

HMJr: Well, let's say Wednesday or Thursday.

B: Yeah. That'll be better.

- 2 -

HMJr: What?

B: Yeah. We can do part of it on Wednesday and the rest of it on Thursday.

HMJr: Wednesday or Thursday.

B: Yeah. We can probably do some each day.

HMJr: Well, he advised us that we do it, and I'm going to take his advice.

B: Okay.

HMJr: I would say we do it Wednesday, and you can say certainly by Thursday?

B: By Thursday it'd be completed.

HMJr: By Thursday it would be completed.

B: Yeah.

HMJr: Okay.

B: All right.

HMJr: Thank you.

April 11, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

On the afternoon of April 11, 1942 the Secretary reported that Dr. Soong had advised that, all things considered, it would be desirable that the transfer of the \$200 million be made without previous reference to the Generalissimo. Later in the day the Secretary ordered that the transfer be made.

ISF/efs  
4/28/42

April 11, 1942  
1:05 p.m.

Judge  
Rosenman: Yes, Henry.

HMJr: What's the average? Where do we stand?

R: I think you're doing pretty good.

HMJr: Well, check it off, old man. Check it off.

R: All right.

HMJr: Are you alone?

R: Well, I'm having lunch with someone, but shoot.

HMJr: Well, I mean, on the - are we all right on the volunteer plan?

R: I think so, yes.

HMJr: What about the tax thing?

R: On the tax thing, I think you're also okay on.

HMJr: I see.

R: I mean, so far as the Treasury is concerned, you seem to be doing all right.

HMJr: As far as the Treasury.

R: Yes.

HMJr: The only thing, I take it, it leaves in the air is labor, what?

R: That's right. That's going to be very troublesome.

HMJr: Now, Sam, I'm preparing, and I'm writing a letter to the President, but it's really for you; and it'll be over - how long will you be there this afternoon?

R: I'll be here all day.

- 2 -

HMJr: Well, the thing is on that one thing that you raise, fifty per cent of the income of the people that don't pay any tax.

R: Yes.

HMJr: I have an answer on that.

R: I don't think it's necessary, really. He seemed to dismiss that right away.

HMJr: Well, I'd like to make the record and I'd like to satisfy you intellectually, if that's possible.

R: Boy!

HMJr: What?

R: That's very flattering.

HMJr: But - did he talk about lowering the exemptions?

R: Yes. He thinks that gives such a small amount, just as you said, that it's silly to do it.

HMJr: I see. And so we're doing all right?

R: I think you're doing fine right now. I don't know when they start sniping at you.

HMJr: Well.....

R: I'm going to see them at - they wanted to see me - they're coming over at two o'clock, Leland and Hanson.

HMJr: Yeah.

R: I don't know what they're going to say.

HMJr: Well, if it's all right with the President - after all he's still boss.

R: Yeah. I'm going to start working on it today.

HMJr: Good.

R: I really got good service over at the Treasury.

- 3 -

After I left you, why, my God, I thought they were going to take me over the railing they got here so fast.

HMJr:

You mean by car?

R:

Yesh.

HMJr:

We always give you good service, Sam.

R:

Okay. (Laughs)

HMJr:

Now, one other thing, we're also having drafted that thing for the President to start our new drive, you see.

R:

He said he would do it.

HMJr:

He would do it.

R:

Yes.

HMJr:

That's being written, too.

R:

Now, that, you'd better address to me.

HMJr:

That will be addressed to you.

R:

And send it over to the office here.

HMJr:

That will be put in your hands by Secret Service.

R:

Right.

HMJr:

I thank you.

R:

Okay, Henry.

HMJr:

Thank you.

R:

Are you going up North?

HMJr:

I hope to, about three.

R:

All right. Wish I could join you.

HMJr:

Well, you've got an invitation.

- 4 -

R: (Laughs) Well, I can't do that and this at the same time.

HMJr: All right, Sam.

R: Okay.

HMJr: I hope that - Sam, this - I hope that you give me a chance to see a draft of this thing.

R: You will be - you will receive the drafts right along, my boy.

HMJr: I thank you.

R: All right.

HMJr: Don't forget.

R: All rightie.

HMJr: Good-bye.

R: Good-bye.

*copy*

April 11, 1942

My dear Mr. President:

At a conference in my office this morning Judge Rosenman passed on to me a statement that one-half of the national income is received by persons who are not now subject to the Federal income tax. This statement had been made to him apparently with the implication that it was a reason for imposing a sales tax.

It may well be that as much as one-half of the national income is received by persons not subject to the Federal income tax. Our own estimates, based on such data as are in existence, indicate a figure of about 45 percent for 1942. Unfortunately, no one really knows how income is being distributed in the lower income levels as no data are available from any actual field studies since 1936.

Even if, however, as much as one-half of the national income were being received by persons not now subject to the income tax, it would not follow that a sales tax was required to restrain inflation. The reasons are:

- (1) The estimates of the Office of Price Administration show that the \$15 billion increase in income expected for 1942 will be received very largely by persons who will be subject to the income tax in 1942.
- (2) The \$2 billion increase in social security taxes proposed in your Budget Message would fall primarily on wage earners and would thus be a strongly deflationary influence in the case of persons not now subject to income tax.

FILE COPY

- 2 -

(3) The Treasury's tax proposals to Congress already reach the income of persons below the personal exemptions through the imposition of \$1,300 million of new excise taxes. Most of this additional sum comes from tobacco, liquor and gasoline, commodities that are directly or indirectly consumed by all income classes. With the increases the total Federal excises would amount to \$4,700 million.

(4) Persons with incomes not large enough to be reached by the Federal income tax purchase a much smaller proportion of the total of durable goods and other very scarce goods than they do of foods and other relatively plentiful goods.

(5) Our voluntary borrowing program is designed to reach the group below the income tax exemptions. Strong support for this program has been received from industry and all branches of labor. It is anticipated that a substantial percentage of incomes in the lower levels will be withdrawn through savings. Being voluntary, this program permits a flexible adjustment of contributions to obligations and family responsibilities.

(6) A sales tax would make the problem of wage control, and consequently of price control, more difficult. It would affect the wage earner exactly like a price rise and would stimulate his demands for wage increases.

Since a sales tax is not necessary to control inflation, its only justification falls. The imposition of a sales tax would distribute the war burden unfairly and would interfere with maximum efficiency!

(1) One of the primary purposes of controlling inflation is to protect persons and families with small incomes. A sales tax falls heaviest on these persons and would have the same kind of effect on them as inflation. Both inflation and a sales tax

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- 3 -

give persons with larger incomes an advantage of bidding away goods from persons with small incomes, and thus force a reduction in the standard of living of the very groups most in need of protection.

(2) It is bad economics to reduce the standard of living of persons already consuming less than is necessary to maintain their productive efficiency. A sales tax would further reduce the standard of living of these people. It would therefore diminish their efficiency, increase sickness and disability; possibly it would also necessitate the supplementation of their income by Government relief and subsidies.

(3) Persons not now reached by the personal income tax are already burdened more heavily by Federal, State and local taxes of all kinds than are persons just above the exemption limit. The taxes on persons below the exemptions are already regressive. Such a condition should be corrected rather than intensified.

Finally, it may be added that we have moved rapidly in the last two years to expand the coverage of the income tax. The married exemption has been reduced 40 percent from \$2,500 in 1929 to \$1,500 at present. Meanwhile costs of living have risen and are continuing to rise, thus in effect further reducing the exemptions.

Faithfully yours,

Secretary of the Treasury

The President,

The White House.

*Sent by Secret Service*  
2:30 P.M.

*Copy sent to Judge Rosenman.*

RB:dad  
4/11/42

FILE COPY

April 11, 1942

Dear Judge Rosenman:

Secretary Morgenthau has asked me to send you the attached suggestions which might be used in that portion of the President's speech dealing with voluntary savings.

I realize that this information is much more than you can use, but I hope that it will be helpful. Please let me know if there is any aspect of the War Savings program on which you need further information.

Sincerely,

Ferdinand Kuhn, Jr.,  
Assistant to the Secretary.

Justice Samuel I. Rosenman,  
The White House,  
Washington, D. C.

FK/egk

A year ago I had the privilege of buying the first United States Defense Bond. It marked the inauguration of a great savings program to enlist billions of the people's dollars in the defense of their country. At that time we were still at peace. But we were even then straining every effort to transform this great peace-loving democracy into an arsenal for the defenders of freedom throughout the world.

Defense Savings Bonds have now become War Savings Bonds, and the savings campaign has become an integral and important part of the nation's war effort.

We are no longer preparing for some future dread eventuality. We are waging war on far-flung battlelines. We are fighting to preserve our very existence as a nation, and to protect and preserve those precious freedoms without which life for us would not be worth living.

Time is short. The demands of war impose an obligation which we cannot escape or evade. We need ships, planes, guns and tanks, and fully equipped fighting men in overwhelming numbers. To raise the billions which we now need to pay for the war, and at the same time to prevent a disastrous rise in the cost of living, we must double and more than double the scale of our savings.

- 2 -

In my message to Congress last January I set forth certain production goals. I said then that during 1942 we must produce 60,000 planes, 45,000 tanks, 20,000 anti-aircraft guns and 8,000,000 tons of shipping. To these production goals I am now adding a War Savings goal of twelve billion dollars a year from the people of the United States. There will be monthly quotas for the nation as a whole and for every State and every county. I have said that we can, we will, we must, attain our production goals. In the same way we can, we will, we must, reach our War Savings goals.

The goals I have set are large; to reach them we shall have to set aside one-tenth of our entire national income and, on the average, one-tenth of our individual earnings. To reach them, every man and woman who earns regular income will have to dig deep into those earnings, every pay day. It will not be enough to invest our spare change. Every dime and dollar not vitally needed for absolute necessities must go into War Savings Bonds and Stamps and must become an ally of our heroic men in uniform.

- 3 -

This war has spread until it now encircles the entire planet. Its cost in money will involve real sacrifice from every one of us. All of us must cut down our spending. We must learn the habit of saving. By saving, we serve our country today and postpone our own comfort until tomorrow. By saving, we can keep planes up and prices down. By saving, we can enlist our dollars as our soldiers and sailors have enlisted their lives, in the greatest cause in which any people has been privileged to serve.

Perhaps the most convenient method for the purchase of War Savings Bonds is the payroll allotment plan. Under this system the worker authorizes his employer to set aside a portion of his pay each pay day for the purchase of War Savings Bonds. Already over 50,000 firms employing some 20 million people have adopted such plans. I am suggesting to all these, and to others who are now installing the payroll allotment method, that they exert every effort to see that at least 10% of their gross payroll is set aside by the employees for the purchase of War Savings Bonds.

We are still a long way from that goal. Of the larger companies in private industry, hundreds have not yet made such savings plans available to their employees. These

companies, all companies, should install such plans without delay. Of the 20 million employees for whom payroll allotment plans are now available, less than half are now purchasing bonds in this way. This record must be more than doubled. The average monthly allotment of those who are now taking part in this method of regular, systematic bond-buying is still far too low. This, too, must be more than doubled.

In pushing our drive to reach the War Savings goals, the friendly, active cooperation of the workers themselves is of the utmost importance. Labor has pledged its all-out, whole-hearted support of this program; employers, too, have shown their willingness to cooperate by installing payroll allotment plans, at considerable cost and inconvenience to themselves. Labor and management have already demonstrated a spirit of partnership in laying the foundations of the War Savings program. Working together, they can not only insure the success of this vitally important war effort, but they can plant the seeds of improved industrial relations which will bear increasingly rich fruit in the years to come.

There has been a good deal of talk and many proposals looking toward the adoption of some system of forced savings. I do not believe that we are under any necessity to adopt such methods. I have faith in the voluntary cooperation of the American people. I know that when called upon to do a job they have never flinched or run away. I shall, therefore, oppose compulsory savings unless and until I am persuaded that voluntary methods cannot achieve the goals that we have set.

April 11, 1942  
2:13 p.m.

Leuchlin  
Currie: Mr. Secretary, I read over this letter.....

HMJr: Yes.

C: .....Harry sent over.....

HMJr: Yes.

C: .....and I think it's quite effective.

HMJr: Yes.

C: I think something more on the first page could be made of the fact that of the increase in income, a great bulk of that is coming under the income tax. The OPA's own figures show that the - by categories - all the increase, I believe, this year was expected in the category of twenty-five hundred and above.

HMJr: Yes.

C: People moving into that, you see.

HMJr: Yes.

C: So that of the increase, you're getting all of it.

HMJr: Yes.

C: But apart from that, I think it's very effective, and I wouldn't question any of the arguments.

HMJr: But the increase is coming from that.

C: Yes. It - the point is made - the first point on page one, but I think it could be made even stronger.

HMJr: Right.

C: Yeah.

- 2 -

HMJr: Now, as to our friend, that I saw alone.....

C: Uh huh.

HMJr: .....he recommended that I deposit the money and then make my little plea about being hurt.

C: Yeah.

HMJr: So while he was here, I issued the order that the money should be deposited.

C: Good. I'd use my own discretion in that, Mr. Secretary. (Laughs)

HMJr: How do you mean?

C: In communicating back with your general feeling, and.....

HMJr: You mean.....

C: I mean, my own view of the desirability of there being more.....

HMJr: Oh, you mean you're sending a message, too?

C: Yes. But I mean about my own discretion, you know.

HMJr: I understand.

C: Yeah.

HMJr: Well, that's the way it was.

C: Fine.

HMJr: So I think that ought to make you happy.

C: Good. (Laughs) It does.

HMJr: Thank you.

C: Thank you. Good-bye.

*Finished*

April 11, 1942

Ed Foley

Secretary Morgenthau

Please pass this suggestion along today to Bob McConnell, President of Aniline and Film. I suggest that at once he invite representatives of the Army Signal Corps and the Army Air Corps to go to Binghamton and to inspect the Ansco Factory there and see what they can make for the Army. At the same time, I would invite representatives of the Air Section, or Flying Section, of the Navy to go through the plant. I'm confident that if this is done at once, it will most likely give Ansco sufficient orders to take over its entire production.

On that reproducing machine that McConnell spoke about, I would bring that promptly to the Army and Navy's attention and see how many they want. Please tell McConnell that these are my suggestions, and I'd like a report as to what he does about it and what results he gets from these two suggestions.

I would also have him bring to the attention of the head doctor for both the Army and Navy the fact that through Aniline and Film, we have the interests in this pharmaceutical company, and what

- 2 -

can we manufacture for them that they need. I'd also like to have a report on this.

For Foley, I would also have the Chemical Warfare Section of the Army look over the Aniline works and see what we can manufacture for them. I think it would be good to find out what, if anything, McConnell is doing for getting war orders. I'm sure we could load the plant up in a couple of weeks if they go after it and help out in the battle for production and manufacturing. Also tell McConnell whatever he's been charging for synthetic quinine, I think it would be a nice gesture if he'd reduce the price for the U. S. Government.

April 11, 1942

Mr. Gaston  
Secretary Morgenthau

After reading your memorandum, I have no objections to the appointment of Mr. Hannegan with this one exception. I question that we should appoint a man to a position in Internal Revenue when we know in advance that he is going to continue his private practice. I thought it was an unwritten rule that all Collectors of Customs and Internal Revenue should give up their private businesses.

Please let me know about this.

*Gaston submitted*

*memo -*

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Original Returned to  
Gaston 4/11/42.

ASSISTANT SECRETARY OF THE TREASURY

April 9, 1942.

MEMORANDUM

To: Secretary Morgenthau  
From: Mr. Gaston

The Office of Scientific Research and Development of the Office for Emergency Management has asked that Secret Service make a study of the work of the committee at the metallurgical laboratory of the University of Chicago to make recommendations for safeguarding it. Secret Service has made similar protection studies for this organization in the past. I should like to have your approval on making this investigation.

*W.S.G.*

*O.K. W.S.G.*

Mr. [unclear] told Mr. Gaston  
308  
I will not investigate  
personnel of other  
departments "

April 11, 1942.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

This refers to my letter of March 27, in reply to a letter by Secretary Ickes, dated March 24, requesting our assistance in connection with the enforcement of the National Explosives Act, and your memorandum of April 1.

Messrs. Irey, Berkshire and Avis had a conference on Thursday of this week with Daniel Harrington, Chief of the Safety Branch of the Bureau of Mines and two lawyers from the Interior Department. They are being pressed insistently by the Army to build up enforcement machinery to prevent the distribution of explosives to possible saboteurs. It is a tremendous job. There are more than 100,000 dealers in explosives and more than a million users. They have not the faintest idea how to go about it effectually. The head of the Bureau of Mines, Dr. R. R. Sayers, is a Public Health Service physician loaned to the Department of the Interior. Harrington, the head of the Safety Branch, who has been given responsibility with respect to this Act, is not an investigator or policeman but an expert in the handling of explosives in mines and mine safety practices generally. The F.B.I. has been approached, but will undertake no responsibility for policing the Act, agreeing only to act on cases of sabotage by means of explosives that are reported to it. The Act itself is inadequate in the opinion of our people. It provides for registration of dealers. The Bureau of Mines has no machinery to obtain this registration, but has been endeavoring to get county clerks to issue licenses. Many of them refuse to undertake it and in those cases the Bureau has been attempting to get some other public authority to take it on.

In this situation there seemed nothing whatever that we could do. What seems to be needed is a new law and an entirely different organization to handle it. The Bureau of

- 2 -

Mines is simply not equipped to do the job. It is a police job of far reaching dimensions and one which it would seem to me should be a joint responsibility of the Army and the Department of Justice, or a responsibility of the Department of Justice alone.

The Bureau of Mines is preparing to appoint fifty field investigators. They may ask us to investigate the candidates for these jobs. We have not agreed to do so. This force will be entirely inadequate unless a high degree of cooperation is received from State and local police.

*WES.*

311

Secretary said Mr. Paul was to use  
his own judgment.

## MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

April 11, 1942

Morris Ernst is very interested in developing the idea of a provision for severance pay as a post-war measure. He wants to know whether it would be worth while for him to get together some material and propaganda on this, or should he lay off? I promised to speak to you about it. You will remember that we brought up the subject briefly at our conference on Wednesday.

RSI

April 11, 1942

Secretary Morgenthau

E. H. Foley, Jr.

I thought you might be interested in the enclosed letter from Frank Watson.

A trip from San Diego to Australia and return in less than six days under conditions as described is no mean feat.

(Initialed) E. H. F., Jr.

Enclosure

EHF:Vls - 4/11/42

Lindbergh Field  
Cable "Consair"

CONSOLIDATED AIRCRAFT CORPORATION

San Diego, California  
P.O. Box 1950

9 April 1942

Dear Ed,

Thought you might be interested in the following bit of news which has not yet been released for publication:

In connection with our flight delivery of North American B-25 airplanes for the Netherlands, we wound up with four crews or sixteen men stranded in Australia. To get these men back where they could be of service, we borrowed a Consolidated Liberator four engine bomber for a quick trip to Australia and back. Our chief ferry pilot left San Diego on Wednesday at midnight. He was back in San Diego the following Tuesday night at 11:15 p.m. making a round trip to Australia with 20 persons aboard on the return trip in fifteen minutes less than six days. His return journey covered 45 hours of elapsed time and 38 hours of actual flying time. The total round trip distance is well in excess of 15,000 miles.

At any other time and under any other conditions this would have been a headline record in every paper in the country. Under peace time conditions it would have been made after weeks of preparation and careful weather forecast. As it was, two days were taken preparing the airplane for the trip including installation of bunks in the bomb bay and the entire journey went forward without radio assistance or weather reports as is the practice when negotiating the Island chain partly held by the Japs.

Any way you look at it, it is one for the books and another demonstration of the importance of an air supply route to an important theatre of War, reducing ocean travel time of 30 days to an air travel time of 3 days for the journey "down under".

Regards,

/s/ Frank Watson

Frank Watson

Mr. E. H. Foley  
General Counsel  
U. S. Treasury Department  
Washington, D. C.

4-11-42  
APR 11 1942

My dear Mr. Chairman:

I am enclosing a copy of a letter which I have sent to Senator McKellar as acting chairman of the Senate Appropriations Committee outlining the Treasury's position on the provision contained in lines 23 through 25 on page 50 and lines 1 through 4 on page 51 of the Sixth Deficiency Appropriation Bill (H. R. 6868) as it passed the Senate on April 7, 1942.

I would appreciate it very much if you would use your efforts to have the conferees adopt the substitute language which I recommended to Senator McKellar.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Clarence Cannon,  
Chairman, Committee on  
Appropriations,  
House of Representatives.

LJB:IMS 4/9/42

April 9, 1942.

My dear Mr. Chairman:

I wish to call your attention to the position of the Treasury Department with respect to the following provision contained in lines 23 through 25 on page 50, and lines 1 through 4 on page 51 of the Sixth Deficiency Appropriation Bill (H. R. 6868) as it passed the Senate on April 7, 1942:

"Each such Secretary may, whenever he deems it appropriate or in the interest of economy or the avoidance of duplication of inspection and audit, request the services of the Bureau of Internal Revenue for the purposes of making examinations and determinations with respect to profits under this section, and the Bureau of Internal Revenue shall make such services available for such purposes."

This language, if enacted, would authorize the Secretary of the Navy, the Secretary of War, and perhaps the Chairman of the Maritime Commission, to require the Bureau of Internal Revenue to make examinations and determinations with respect to profits without reference to the availability of the facilities of the Bureau for such purposes

- 2 -

and without giving the Secretary of the Treasury the right to make any determination as to the availability of such facilities.

I do not believe that what might very well prove to be a heavy burden should be thus imposed upon the Bureau at this time. Not only is our regular work increasing to the point where it will soon be greater than ever in our history but, due to the demands of the war, we must do that work with a limited number of trained people. On the one hand many of our better-equipped investigators have been called for military duty and I am very reluctant to request their deferment, while on the other, for obvious reasons the recruitment of qualified replacements has become exceedingly difficult.

In the light of the circumstances which I have outlined, I hope that it will be possible for you to have the conferees adopt a substitute for the amendment quoted above which, instead of requiring the Bureau to perform the work in question upon request of the officials mentioned, will authorize the use of the facilities of the Bureau of Internal Revenue for such purpose to the extent that the Secretary of

- 3 -

the Treasury deems them available.

I assure you that I am in full accord with the purpose of the provision in question and that if my recommendation is followed the Treasury will cooperate to the fullest extent consistent with the best interests of the Government as a whole.

For your convenience in handling this matter, I am enclosing a draft of a substitute provision which would carry out the Treasury's recommendations.

Very truly yours,

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

Hon. Kenneth McKellar,  
Acting Chairman, Committee on  
Appropriations,  
United States Senate.

LJB:ims 4/9/42

"In the interest of economy and the avoidance of duplication of inspection and audit, the services of the Bureau of Internal Revenue shall, upon request of each such Secretary and the approval of the Secretary of the Treasury, be made available to the extent determined by the Secretary of the Treasury for the purposes of making examinations and determinations with respect to profits under this section."

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
First Nine Business Days of April, March and February 1942  
(April 1-10, March 1-11, February 1-11)  
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 over March	March over February	April over March	March over February
	Series E - Post Offices	\$ 27,339	\$ 34,635	\$ 41,156	-\$ 7,296	-\$ 6,521	- 21.1%
Series E - Banks	<u>81,368</u>	<u>100,247</u>	<u>155,203</u>	- <u>18,879</u>	- <u>54,956</u>	- <u>18.8</u>	- <u>35.4</u>
Series E - Total	108,707	134,882	196,359	- 26,175	- 61,477	- 19.4	- 31.3
Series F - Banks	13,904	18,196	26,802	- 4,292	- 8,606	- 23.6	- 32.1
Series G - Banks	<u>63,293</u>	<u>79,022</u>	<u>133,842</u>	- <u>15,729</u>	- <u>54,820</u>	- <u>19.9</u>	- <u>41.0</u>
Total	<u>\$185,904</u>	<u>\$232,100</u>	<u>\$357,003</u>	-\$ <u>46,196</u>	-\$ <u>124,903</u>	- <u>19.9%</u>	- <u>35.0%</u>

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

April 11, 1942.

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

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

## UNITED STATES SAVINGS BONDS

Daily Sales - 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
7	2,958	5,722	834	8,983	15,539	8,680	834	8,983	18,497
8	2,309	9,610	1,142	6,562	17,314	11,919	1,142	6,562	19,623
9	2,906	9,304	955	5,715	15,974	12,210	955	5,715	18,880
10	2,730	8,052	1,573	5,261	14,885	10,782	1,573	5,261	17,615
Total	\$ 27,339	\$ 81,368	\$ 13,904	\$ 63,293	\$158,565	\$108,707	\$ 13,904	\$ 63,293	\$185,904

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

April 11, 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.

April 11, 1942.

Dear Mr. Schram:

I have seen a report on the work done by the securities industry in contacting corporations in connection with the Treasury's offering of Certificates of Indebtedness. You have done a fine job in the limited time in which you had to work.

I wish you would convey to your members my appreciation of their cooperation.

Sincerely yours,

(Signed) H. Morgenthau, JR.

Mr. Emil Schram, President,  
New York Stock Exchange,  
Eleven Wall Street,  
New York, New York.

GB:amc *GTJ*

*D.M.C.*  
*W. Hampton*

April 11, 1942.

Dear Mr. Fulton:

I have seen a report on the work done by the securities industry in contacting corporations in connection with the Treasury's offering of Certificates of Indebtedness. You have done a fine job in the limited time in which you had to work.

I wish you would convey to your members my appreciation of their cooperation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Wallace H. Fulton,  
Executive Director,  
National Association of Securities  
Dealers, Inc.,  
821 Fifteenth Street, N. W.  
Washington, D. C.

GB:amo G.F.J.

J. H. C.

copy to Thompson

April 11, 1942.

Dear Mr. Burns:

I have seen a report on the work done by the securities industry in contacting corporations in connection with the Treasury's offering of Certificates of Indebtedness. You have done a fine job in the limited time in which you had to work.

I wish you would convey to your members my appreciation of their cooperation.

Sincerely yours,

(Signed) H. Morgenthau, JR.

Mr. James F. Burns, President,  
Association of Stock Exchange Firms,  
24 Broad Street,  
New York, New York.

GB:amo G.F.J.

n.m.c.  
copies to Hoover

April 11, 1942.

Dear Mr. Fleck:

I have seen a report on the work done by the securities industry in contacting corporations in connection with the Treasury's offering of Certificates of Indebtedness. You have done a fine job in the limited time in which you had to work.

I wish you would convey to your members my appreciation of their cooperation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. John Fleck, President,  
Investment Bankers Association,  
c/o Hayden Miller & Co.,  
Cleveland, Ohio.

GB:amo *GFD*

*n. m. c.*

*Copies to Thompson*

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 11, 1942

TO Secretary Morgenthau

FROM Mr. White *HOW*

I am giving you herewith a comparative statement of the earnings and expenses of the Stabilization Fund for the months of February and March, 1942.

<u>Earnings</u>	<u>February 1942</u>	<u>March 1942</u>
Interest earned on investments	\$ 18,283.85	\$ 20,220.68
Interest earned on Yuan	22,030.43	24,394.04
Interest earned on Milreis	<u>3,101.38</u>	<u>9.81</u>
Total	\$ 43,395.66	\$ 44,624.53
Profits on handling charges on gold	<u>369,415.87</u>	<u>155,887.58</u>
Grand Total	\$412,811.53	\$200,512.11
<u>Expenses</u>		
Salaries	\$ 16,655.79	\$ 24,456.75
Travel	462.51	101.96
Subsistence	1,274.11	263.00
Telephone and Telegraph	1,884.18	2,174.79
Stationery	13.04	207.10
All others	<u>1,759.32</u>	<u>873.00</u>
Total	\$ 22,048.95	\$ 28,076.60
<u>Net Earnings</u>	\$390,762.58	\$172,435.51

The decrease in earnings for March resulted from a decline in the volume of gold transactions with foreign countries on which the 1/4 of 1% handling charge was collected.

The higher figure for "Salaries" in March reflects payment of a three-months accumulation of vouchers received from the Federal Reserve Bank of New York.

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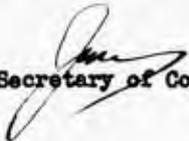
THE SECRETARY OF COMMERCE  
WASHINGTON

April 11, 1942

Dear Henry:

Your letter of the 10th, about Cuban  
sugar, received and noted with interest. Thanks.

Sincerely yours,

  
Secretary of Commerce

The Honorable  
The Secretary of the Treasury

APR 10 1942

Dear Jesse:

I have your letter of April 8, 1942, concerning the arrangement for Defense Supplies Corporation financing through the three American banks which have branches in Cuba for the portion of the 1942 Cuban sugar crop which was to be delivered in the form of invert molasses.

It is noted that further deterioration in shipping has made it necessary to reduce the sugar equivalent for invert molasses substantially and also has made it impossible for the sugar to be moved from Cuba as contemplated by the 1942 Cuban crop contract at approximately the rate of one-tenth of one per cent of the annual production per month. To meet this and certain other problems you indicate that the Defense Supplies Corporation has agreed to make ninety per cent loans against warehoused sugar in Cuba until December 15, 1942, or such earlier time as the sugar can be shipped from Cuba and that tentative arrangements have been made to have these loans made through the same banks and in such the same manner as the molasses financing. In view of the situation outlined in your letter the Treasury concurs in the arrangements proposed by the Defense Supplies Corporation.

The Treasury will continue to cooperate with the Defense Supplies Corporation in transmitting currency to Cuba and utilizing the depository facilities of the three banks heretofore designated for that purpose.

Very truly yours,

(Signed) Henry

Secretary of the Treasury.

Honorable Jesse H. Jones,

Secretary of Commerce.

HHS:mb 4-9-42

24 Tr. Letter

THE SECRETARY OF COMMERCE  
WASHINGTON

1178 342

Mr. Henry:

Reference is made to my letter to you of February 6th and your reply thereto of February 7th concerning the arrangement for Defense Supplies Corporation financing through the three American banks which have branches in Cuba, the portion of the 1942 Cuban sugar crop which was to be delivered in the form of invert molasses.

Further deterioration in shipping has made it necessary to reduce the sugar equivalent for invert molasses substantially, and also has made it impossible for the sugar to be moved from Cuba as contemplated by the 1942 Cuban Crop Contract at approximately the rate of one-tenth of one percent of the annual production per month.

To meet these and certain other problems which have arisen under the 1942 Cuban Crop Contract, Defense Supplies Corporation has agreed to make 600 loans against warehoused sugar in Cuba until December 15, 1942, or such earlier time as the sugar can be shipped from Cuba. Such loans are to be made without interest charge to the Cuban mills, but all other costs, including the bank remittance charge, custodian fee, storage, customary insurance, etc., will be for the account of the Cuban mills.

Tentative arrangements have been made to have these loans made through the same banks and in much the same manner as the molasses financing. The banks have indicated willingness to make and handle these loans as fiscal agent and custodian for Defense Supplies Corporation on a basis of a custodian fee of one-tenth of one percent on all loans made, and an interest charge, in consideration of the guarantee of such loans by the RFC, of one-tenth of one percent per annum on the daily average balance outstanding. In addition, there will be a remittance charge of one-tenth of one percent for the portion disbursed to Cuba.

The total amount involved is estimated at \$2,000,000, not more than one-half of which is to be made available to the mills. The amount outstanding at any one time, however, will not exceed \$1,000,000. Such loans will be liquidated, of course, only when the necessary reports are filed with the RFC. This arrangement conforms with the suggestions of the Treasury Department in transmitting recommendations for financing the molasses financing through the three banks in the form of a molasses financing.

It will be appreciated that all office work will be completed in accordance with the proposed outline herein set forth.

Sincerely yours,

*James H. Doolittle*  
Secretary of Commerce

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

April 11, 1942

MEMORANDUM FOR THE FILES

Telephone conversation between  
Mr. White and Mr. McCabe  
Saturday, April 11, 1942  
1:25 p.m.

Mr. McCabe telephoned Mr. White to say that he had been informed that the Army was prepared to go up to \$300 million — \$200 million for the Air Corp and \$100 million for Ordnance. Mr. McCabe was informed by the Army that they believed they would have to ask Congress for more funds and Mr. McCabe said that this \$300 million would be used as one of the reasons for asking for an amount larger than \$300 million. Mr. McCabe asked that after the memorandum on this, prepared by the Army, was read, the matter be cleared with the President. Mr. McCabe was assured by Mr. White that the matter would be so cleared. Mr. White suggested that Mr. McCabe himself telephone the Secretary. Mr. McCabe then assured Mr. White that he would check the memorandum with him.

ISF/efs  
4/13/42

APR 11 1942

Dear Mr. McCabe:

Reference is made to your letter of April 6th relative to record-keeping requirements concerning lend-lease export cargo, particular reference being made to the export declaration to be filed with the Collector of Customs before loading of the shipment to the ocean-going vessel, and the possibility of delays due in part to the inexperience of many suppliers in export shipping.

The Procurement Division has been making inquiry along these lines with a view to eliminating all non-essential paper work and to avoid delay in shipping due to formal requirements and there seem to be good possibilities of simplifying this procedure. The Commissioner of Customs participated in a conference at Philadelphia on April 2 at which agreement was reached to permit vessel clearances from that port up to April 20 on pro forma export declarations subject to later completion and to adopt other means to expedite loading and departures.

Your suggestion that there be created a special committee to study this situation in detail is concurred in by this Department. In addition to the agencies named in your letter, it is felt that the War Department should also be asked to participate. I have designated Mr. A. J. Walsh, Assistant to the Director of Procurement, and Mr. W. E. Johnson, Commissioner of Customs, to serve as members of the proposed special committee.

Sincerely yours,

(Signed) A. W. C. ...

Secretary of the Treasury.

Mr. Thomas B. McCabe,  
Deputy Administrator,  
Office of Lend-Lease Administration,  
Washington, D. C.

159 Message 11:05 V...  
How for 7/22/42  
File to Thompson

CEM:so - REC:mah 4-9-42

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

April 6, 1942

Dear Mr. Secretary:

Difficulties in keeping Lend-Lease export cargo flowing through our ports without congestion, unnecessary tying up of rail cars, and occasional delay to ship loading frequently arise out of record-keeping requirements. Among these is the normal requirement that an export declaration be filed with the Collector of Customs before loading of the shipment to the ocean-going vessel.

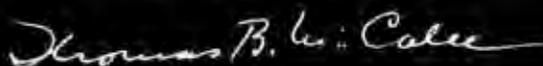
Considerable difficulty has been experienced by the ship agencies in securing full information from the suppliers of Lend-Lease cargo, undoubtedly due in part to the inexperience of many of these suppliers in export shipping. Frequently, the freight arrives at the port for loading without the papers necessary for the ship agency to prepare a proper export declaration; hence a rail car is held under load, with attendant complications.

The avoidance of such delays is, as you can appreciate, a matter of concern to various agencies, including War Shipping Administration and the Office of Defense Transportation, as well as the Lend-Lease Administration and the procurement agencies responsible for routing the freight to the ports.

I consider this matter of such outstanding importance that I am venturing to suggest the creation of a special committee to consider suitable remedies, and to make recommendations within the shortest possible time. Because of the large number of agencies concerned, I believe that, in addition to the Treasury Department and the Office of Lend-Lease Administration, the following should have representation on the committee: Department of State; Department of Commerce; War Shipping Administration; Office of Defense Transportation, and Board of Economic Warfare.

I am most anxious to learn whether you consider this a practicable suggestion.

Yours very truly,



Thomas B. McCabe  
Deputy Administrator

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

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

E. R. Stettinius, Jr.  
Administrator

April 11, 1942

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

Dear Mr. Secretary,

Thanks for the confidential memorandum of Mr. Tickton, covering his trip to Philadelphia on April 6th. I agree with you that this is most encouraging. Since Russian shipments are now being held at New York and Baltimore as well as Philadelphia, Mr. Tickton might want to include those two points in his future investigations.

I think it would be desirable if we could sit down some day, at your convenience, with Lew Douglas and General Somervell and discuss the over-all shipping question. We could either meet in your office or I would be glad to invite them for lunch in my office.

Sincerely yours,

*Thomas B. McCabe*

Thomas B. McCabe  
Acting Administrator

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STRICTLY CONFIDENTIAL

MOVEMENT OF RUSSIAN LEND-LEASE MATERIAL FROM NEW YORK PORT

Field Trip Report by Mr. Sidney G. Tickton, April 10,  
and April 11, 1942.

On Friday, April 10, and Saturday, April 11, I visited Mr. Louis Kline and Mr. W. J. O'Hea, Vice President and Manager of the Soviet Export Division of Moore-McGormack Lines, respectively, Mr. R. G. Notine, of the Treasury Department's Procurement Division, Colonel E. B. Grey, of the War Department's Service of Supply, Messrs. H. L. Durning and Gregory O'Keefe, Collector and Deputy Collector of Customs, respectively, at their New York offices to discuss the movement from the Port of New York of lend-lease materials for Russia.

The foregoing gentlemen were unanimous in their opinion that the movement of lend-lease materials from New York is being conducted as expeditiously as possible and without any of the problems and delays that made their appearance at Philadelphia or Baltimore. More cargo than is now available could be handled at the port but there is no shortage of cargo sufficient to delay the sailing of ships. The port is equipped to handle a great many more ships than are now being assigned by the Maritime Commission, but the persons interviewed have had no opportunity to make recommendations with regard to this matter.

With respect to the matter of a prospective congestion of this port, Mr. Durning explained to me that a joint steamship and railroad committee was set up by the Maritime Association of the Port of New York at the outbreak of hostilities abroad for the expressed purpose of eliminating delays and preventing congestion at the port. An experienced railroad and shipping man was installed as chairman and the committee has functioned very effectively in preventing delays in cargo movements. While there is a large amount of merchandise awaiting shipment abroad, according to Mr. Durning, (not Russian lend-lease materials, of course) the port itself has never been as liquid as it is today.

**STRICTLY CONFIDENTIAL**

MOVEMENT OF RUSSIAN LEND-LEASE MATERIAL FROM BALTIMORE PORT

Field Trip Report by Mr. Sidney G. Tickton, April 9, 1942.

On Thursday, April 9, I visited Mr. Mueller, Manager of the Soviet Export Division of the Moore-McCormack Lines, Messrs. Bauer and Tibbetts, of the Treasury Department's Procurement Division, Col. Bloom and Mr. Wadsworth, of the War Department's Service of Supply, Mr. Finkelstein, local representative of the Amtorg Trading Company and Mr. Brune, of the Maritime Commission, at their Baltimore offices to discuss the movement from the port of Baltimore of lend-lease materials for Russia. A summary of developments at Baltimore as derived from my conversation with the foregoing gentlemen follows:

- (1) There is now and there has been for the past two weeks an important shortage of both bottom cargo and filler cargo at the port. As a result of these shortages loading of ships is moving forward at a rate far below capacity. 1/
- (2) The shortage of bottom cargo at Baltimore is delaying the loading of military supplies that have already arrived in port. On Thursday, for example, there were 114 tanks, some hundreds of trucks and many airplane fuselages that could not be loaded aboard the ships in port until some of the steel and tin plate in transit or at the mill arrived at the port to go into the bottom of the ships.
- (3) The shortage of filler cargo is delaying sailings at the last minute. Some filler cargo is in port but it cannot be loaded because it was not shipped in complete units. 50 carloads of tires have been in port from 3 to 8 days, for example, but these cannot be moved until an appropriate number of inner tubes arrive. These tubes were still in transit on Thursday and the Russians refused to permit the tires to be loaded until assurances could be given that the tubes would arrive in time.

Each of the parties interviewed was careful to point out to me that a better job of loading cannot be done until (1) more "Treasury cargo" arrives and (2) current information on prospective cargo arrivals is in the hands of all parties concerned. With respect to this second item no one at the moment, except the Procurement Division in Washington, knows what to expect in the way

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1/ Data on the loading in process on each of the ships assigned to the Russians that have been or are now in port appears in the attached table. This table should be viewed with the thought in mind that stevedores normally load 20 hours a day and that 3 gangs or less working a ship represent sub-capacity operations.

-2-

of Treasury cargo arrivals, because (a) there is a chronic shortage of papers and (b) the War Department's information on shipments is incomplete and relatively slow. This condition has prevented intelligent planning of ship cargoes and has caused a number of delays. Two remedies were suggested: (1) Moore-McCormack suggested that Procurement tell them each day about all shipments that are reported in the daily wires (Mr. John Loeb promised Moore-McCormack this information ten days ago. I arranged the mechanics for the transmittal of this information while I was in Baltimore.) (2) Col. Bloom and Mr. Wadsworth suggested that everything purchased by Procurement be reported to Col. Lasher's office in Washington so that Quartermaster releases could be issued at the time of shipment. Most items are reported to Col. Lasher's office, I was told, but the items that are not reported cause considerable confusion.

An unfortunate duplication of requests for information on the part of the Procurement Division of the Treasury appears to be breeding some ill feeling between that Division and Moore-McCormack. A week ago Thursday, April 2, Mr. John Loeb called representatives of Moore-McCormack to Washington and asked for certain data on cars loaded aboard ship. The very next morning Mr. Hugh Munro of Procurement's Traffic Division asked the Procurement Field representatives to obtain the same information. The second request was taken by Moore-McCormack as a confirmation of the first and each day only one set of figures has been supplied to Procurement. Mr. Loeb has not been getting his copy, however, and as a result he took Mr. Mueller to task on Thursday for his company's lack of cooperation. The Moore-McCormack people are sensitive on the matter of cooperation, however, and didn't like the Washington attitude at all.

STRICTLY CONFIDENTIAL

## Loading of Russian Lend-Lease Cargo at Baltimore

Progress chart showing for each ship (1) date of arrival and (2) number of gangs loading each day and each night. Asterisks (\*\*) denote periods when no loading was carried on because of lack of suitable cargo.

Day		Yorkmar	Mauna Kea	Neanticut	McKeesport	Cartier Braxton	Hollywood	Deleud	Christopher Newport	Ariapa
Mar.	Day	Arrived								
	Night	**								
19	Day	3	Arrived							
	Night	**	**							
20	D	3	**							
	N	**	**							
21	D	4	1	Arrived						
	N	**	**	**						
22	D	3	**	**						
	N	2	**	**						
23	D	4	4	**	Arrived					
	N	**	**	**	**					
24	D	3	3	2	**	Arrived				
	N	3	**	**	**	**				
25	D	3	2	**	**	**				
	N	3	**	**	**	**				
26	D	Loading	3	**	**	**				
	N	finished	2	**	**	**				
27	D		3	4	**	**	Arrived			
	N		4	3	**	**	**			
28	D		2	4	**	**	**			
	N		3	4	**	**	**			
29	D		2/	2/	2/	2/	2/			
	N		2/	2/	2/	2/	2/			
30	D		Loading	5	**	**	**			
	N		finished	3	**	**	**			
31	D			4	**	1	**			
	N			3	**	**	**			
Apr.	D			Loading	2	2	**			
1	N			finished	**	**	**			
2	D				5	4	**			
	N				4	3	**			
3	D				5	4	**	Arrived		
	N				4	3	**	**		
4	D				5	4	**	3		
	N				3	4	**	3	Arrived	
5	D				Loading	4	2/	2/	1/	Arrived
	N				finished	4	2/	2/	2/	2/
6	D					3	1	4	4	**
	N					3	1	3	4	**
7	D					3	4	4	4	4
	N					1	2	2	4	**
8	D					Loading	5	4	5	3
	N					finished	**	1	2	1

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

April 13, 1942

2/ No loading carried on on account of rain or snow.  
 2/ No loading carried on on account of Easter Sunday holiday.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 11, 1942

TO Secretary Morgenthau

FROM Mr. Kamarek

Subject: Shipment of Planes to British Forces, Week ending  
April 7, 1942

Summary

1. In the week ending April 7, 1942, a total of 88 planes of all types (83 combat planes) were shipped to British forces.

2. The first shipment of a North American B-25 to the British occurred during this week. The B-25 is a two-motor medium bomber, having a maximum speed in excess of 300 miles per hour.

Table A - Shipments by Area

	Week Ending <u>April 7, 1942</u>	<u>Total Shipped in 1942 to date</u>	<u>Total Shipped since Jan. 1, 1941</u>
<u>To the United Kingdom</u>			
Light and medium bombers	33	114	1,275
Heavy bombers	2	17	121
Naval patrol bombers	0	8	110
Pursuit	1	517	828
Army Cooperation	4	38	69
Trainers	<u>0</u>	<u>0</u>	<u>24</u>
Total to the United Kingdom	40	694	2,427
<u>To the Middle East</u>			
Light and medium bombers	23	179	509
Heavy bombers	0	0	5
Pursuit	4	163	1,011
Army Cooperation	0	12	12
Trainers	<u>0</u>	<u>8</u>	<u>150</u>
Total to the Middle East	27	362	1,687
<u>To the Canadian Forces</u>			
Light and medium bombers	2	26	194
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	<u>5</u>	<u>224</u>	<u>1,465</u>
Total to the Canadian Forces	7	304	1,763
<u>To the British Pacific Forces</u>			
Light and medium bombers	11	106	201
Naval patrol bombers	0	0	27
Pursuit	0	68	236
Trainers	<u>0</u>	<u>0</u>	<u>105</u>
Total to Pacific Forces	11	174	569
<u>To the British Indian Forces</u>			
Pursuit	<u>3</u>	<u>17</u>	<u>17</u>
Total to Indian Forces	3	17	17
<u>Total</u>			
Light and medium bombers	69	425	2,179
Heavy bombers	2	18	127
Naval patrol bombers	0	31	168
Pursuit	8	795	2,164
Army Cooperation	4	50	81
Trainers	<u>5</u>	<u>232</u>	<u>1,744</u>
Total	88	1,551	6,463

Table B - Shipments by Types

	Week Ending <u>April 7, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
Bell Airacobra	1	263	417
Boeing B-17	1	5	25
Boston III	0	5	29
Brewster Buffalo	0	0	168
Cessna Crane I-A (AT-17)	3	21	21
T-50	0	86	700
Consolidated Catalina	0	31	168
Liberator	1	13	102
Curtiss Kittyhawk	4	265	647
Tomahawk	0	0	544
Douglas Boston I and II	0	0	82
Boston III	0	0	410
Fairchild 24 R-9	4	40	62
Glenn Martin Baltimore	23	182	250
Maryland	0	0	150
Grumman Martlet II	3	22	63
Lockheed Hudson	39	193	1,163
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	6	32	32
North American B-25B	1	1	1
Harvard II	2	51	948
Mustang	0	242	322
Pittsairn Autogiro	0	0	5
Stearmen PT-27	0	74	75
Vought Sikorsky Chesapeake	0	0	50
Vultee Stinson-049	0	10	14
Grand Total - All Types	88	1,551	6,463

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Table C - Plane Shipments to the British By Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly Average of shipments in 1941	36	2.2	2.7	28.3	.6	30.2	100
January 6, 1942	24	0	5	30	4	9	72
January 13, 1942	3	0	2	58	0	42	105
January 20, 1942	8	0	0	14	0	60	82
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	33	0	3	59	0	4	99
February 17, 1942	12	0	2	41	7	0	62
February 24, 1942	33	0	2	86	7	1	129
March 3, 1942	26	0	1	80	6	0	113
March 10, 1942	29	2	0	78	1	0	110
March 17, 1942	34	1	0	94	8	0	137
March 24, 1942	94	9	12	79	0	84	278
March 31, 1942	49	1	0	58	4	10	122
April 7, 1942	69	2	0	8	4	5	88
Total shipments since January 1, 1941 to date *	2,179	127	168	2,164	81	1,744	6,463

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

APR 11 1942

Dear Jesse:

Thank you for your letter of April 4 describing the current status of your negotiations for the purchase of British plant facilities.

Very sincerely yours,

(Signed) Henry

Secretary of the Treasury

The Honorable Jesse H. Jones,  
Secretary of Commerce,  
Washington, D. C.

*File M.M.C.  
Photo File to Hoover*

JEM/ers - 4/9/42

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 9, 1942

TO Secretary Morgenthau

FROM Mr. White *HDW*

Subject: Secretary Jones' letter on the status of British plant purchases

The letter you received from Secretary Jones, a copy of which is attached, states that the status of Defense Plant negotiations for the purchase of British plants is as follows:

## A. Program agreed to a year ago:

1. The Tennessee Powder Company, and two machine gun plants have been purchased and paid for. The total amount was \$36.3 million.
2. The other two machine gun plants (value \$12.5 million) will be taken over when auditing is completed.

## B. Program recommended by the President last June:

1. "Satisfactory arrangements" have not been reached with the War Department for purchasing the airplane engine plants (value \$42 million). No indication is given of the nature of the disagreement.
2. The Blaw-Knox Company is reported to have itself purchased the capital facilities built by the British in their plant. The amount involved is only \$100,000.
3. Negotiations are proceeding with the ordnance department on the remaining seven plants (value \$36 million).

## C. Other British plants:

1. War or Navy Department has not recommended the purchase of any other plants.

I attach a letter of acknowledgement to Secretary Jones.



April 4, 1942

Dear Henry:

For convenience I quote the second paragraph of your letter of March 20:

"It was my understanding that it was agreed last Summer that a list of eleven British plants, whose purchase was recommended by the President and by the War Department as useful for the nation's defense, would be purchased by the Defense Plant Corporation. It was also my understanding that the War Department had agreed to the repurchase of the plants, and that completion of their transfer waited only on the accounting work necessary to determine the values of the facilities."

Previous to receipt of the recommendation to which you refer, the Defense Plant Corporation was requested to acquire the following plants which were financed through advance of British funds:

- |                                     |              |
|-------------------------------------|--------------|
| 1. Tennessee Powder Company         | \$26,000,000 |
| 2. Buffalo Arms Corp.               | 6,000,000    |
| 3. High Standard Mfg. Co.           | 4,300,000    |
| 4. Colt's Patent Fire Arms Mfg. Co. | 6,660,000    |
| 5. Kelsey-Hayes Wheel Co.           | 5,800,000    |

Agreements covering the foregoing were concluded and the first three listed have been taken over and paid for. The last two listed will be taken over as soon as the auditing, which is now in process, has been completed.

As to the eleven plants recommended for acquisition in Acting Secretary of War McCloy's letter of June 3, 1941, and approved by the President, I am advised that Blaw-Knox Company arranged their own financing privately and relieved the British of the investment.

Satisfactory agreements have not yet been reached with the War Department for taking over of the three Air Corps facility plants included in the eleven.

Negotiations are under way with the Ordnance Department for the remaining seven and should soon be concluded.

We have had no recommendation from the War or Navy Departments and the President covering the other plants referred to in the fourth paragraph of your letter.

In all of these cases it has been very difficult to obtain satisfactory information that the proposed facilities actually consisted in property that could be purchased rather than in expenditures for non-recoverable items such as building improvements, perishable tools, etc.

We are pursuing negotiations for the plants which have been recommended by the President, and will advise you as soon as we can as to the probable date when they can be taken over.

Sincerely yours,

Secretary of Commerce

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



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 11, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ending April 11, 1942.

Arrangements have been made to provide the frequent reports and inspection made necessary for the new system designed to control shipments to ports for trans-shipment to all Lend-Lease countries.

Robert LeFevre  
Acting Director of Procurement

FOR DEFENSE



BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF APRIL 11, 1942  
 (In Millions of Dollars)

	Total	U. K.	RUSSIA	CHINA	ADMINISTRATIVE EXPENSES	UNDISTRIBUTED & MISCELLANEOUS
Allocations	\$1393.3 (1893.3)	\$642.2 (644.3)	\$230.5 (225.2)	\$ 54.6 ( 52.3)	\$ .9 ( .9)	\$465.1 (470.6)
Purchase Authoriza- tion (Requisitions)	\$ 873.8 ( 856.9)	\$588.8 (587.2)	\$235.6 (220.8)	\$ 46.0 ( 45.5)	- -	\$ 3.4 ( 3.4)
Requisitions cleared for purchase	\$ 821.3 ( 798.4)	\$565.9 (556.1)	\$208.4 (195.8)	\$ 43.6 ( 43.1)	- -	\$ 3.4 ( 3.4)
Obligations (Pur- chases)	\$ 782.0 ( 753.5)	\$542.0 (526.7)	\$196.7 (187.7)	\$ 39.9 ( 35.7)	.8 ( .8)	\$ 2.6 ( 2.6)
*Deliveries to For- eign Governments at U. S. Ports	\$ 295.4 ( 281.7)	\$246.8 (237.8)	\$ 31.5 ( 28.1)	\$ 16.3 ( 15.1)	- -	\$ .8 ( .7)

\*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of April 4, 1942.

## EXPLANATION OF CHANGES

There was a net increase of \$4,000 in allocations for all countries. However, the United Kingdom allocations decreased \$2,100,000, the decline was caused by the cancellation of requisitions for tractors, wagons and parts, power control units, wenchers and parts, aluminum alloy rods, and red oak lumber.

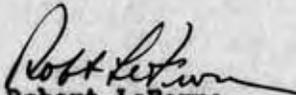
The Purchase Authorizations, Requisitions Cleared for Purchase, Obligations and Deliveries to Foreign Governments at U. S. Ports increased in total and for each country.

April 11, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ending April 11, 1942.

Arrangements have been made to provide the frequent reports and inspection made necessary for the new system designed to control shipments to ports for trans-shipment to all Lend-Lease countries.

  
Robert LeFevre  
Acting Director of Procurement

**LEND-LEASE**  
**TREASURY DEPARTMENT, PROCUREMENT DIVISION**  
**STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND**  
**DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS**  
**AS OF APRIL 11, 1942**  
(In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>RUSSIA</u>	<u>CHINA</u>	<u>ADMINISTRATIVE EXPENSES</u>	<u>UNDISTRIBUTED &amp; MISCELLANEOUS</u>
Allocations	\$1393.3 (1393.3)	\$842.2 (644.3)	\$230.5 (225.2)	\$ 54.6 ( 52.3)	\$ .9 ( .9)	\$485.1 (470.6)
Purchase Authoriza- tion (Requisitions)	\$ 873.8 ( 856.9)	\$588.8 (587.2)	\$235.6 (220.8)	\$ 46.0 ( 45.5)	-	\$ 3.4 ( 3.4)
Requisitions cleared for purchase	\$ 821.3 ( 798.4)	\$565.9 (556.1)	\$208.4 (195.8)	\$ 43.6 ( 43.1)	-	\$ 3.4 ( 3.4)
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\*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of April 4, 1942.

**EXPLANATION OF CHANGES**

There was a net increase of \$4,000 in allocations for all countries. However, the United Kingdom allocations decreased \$2,100,000, the decline was caused by the cancellation of requisitions for tractors, wagons and parts, power control units, wrenches and parts, aluminum alloy rods, and red oak lumber.

The Purchase Authorizations, Requisitions Cleared for Purchase, Obligations and Deliveries to Foreign Governments at U. S. Ports increased in total and for each country.

## PARAPHRASE

Chungking

#395

April 11, 1942 10 a.m.

URGENT AND STRICTLY CONFIDENTIAL

For Fox and the Secretary of the Treasury from Adler,  
TF 26

A meeting with the Minister of Finance attended by the Chairman and the Secretary of the Stabilization Board will discuss on the morning of April 11 the lowering of the exchange rate to five cents United States currency. Hall-Patch being away, the Chairman discussed this with me, Hsi, Pei. The reduction was favored by all except Hsi. Later in the day the Chairman saw Hall-Patch. I also saw him and he also agreed to the reduction. Sale of Savings Certificates backed by United States dollars at the rate of 20 fapi equaling one United States dollar at a time when the official rate is 18.82 fapi to the dollar is obviously an anomalous situation. No convincing argument in favor of maintaining the Stabilization Board's rate at the present level exists. It is however the Board's intention not to allow future tampering with the rate for the purpose of forcing the sales of Savings Certificates.

I shall do the best I can to have formal decision *between by the* Board on the rate deferred until reply is received from you. Rumors, however, travel fast in Chungking so that it may be necessary for the Board to act in the next day or two. At the earliest possible moment I shall cable results of the meeting with the Minister of Finance and any further developments.

Copy:imc,4/11/42

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: April 11, 1942, 10 a.m.

NO.: 395

Urgent and Strictly Confidential for the Secretary of the Treasury and ~~For~~ from Adler. TF-26

A meeting with the Minister of Finance attended by the Chairman and the Secretary of the Stabilization Board will discuss on the morning of April 11 the lowering of the exchange rate to 5 cents United States currency. Hall-Patch being away, the Chairman discussed this with me, Hsi, Pei. The reduction was favored by all except Hsi. Later in the day the Chairman saw Hall-Patch. I also saw him and he also agrees to the reduction. Sale of savings certificates backed by United States dollars at the rate of 20 fapi equalling one United States dollars at a time when the official rate is 18.82 fapi to the dollar is obviously an anomalous situation. No convincing argument in favor of maintaining the Stabilization Board's rate at the present level exists. It is, however, the Board's intention not to allow further tampering with the rate for the purpose of forcing the sales of savings certificates.

I shall do the best I can to have formal decision by the Board on the rate deferred until reply is received from you. Huzors, however, travel fast in Chungking so that it may be necessary for the Board to act in the next day or two. At the earliest possible moment I shall cable results of the meeting with the Minister of Finance and any further developments.

GAUSS

April 11, 1942

Mr. Livesey

Mr. Dietrich

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

"For Adler from the Secretary of the Treasury and Fox.

Reference 395, April 11, 10 a.m.

Your T-26. We do not object to the  
proposed change."

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: April 11, 1942, 5 p.m.

NO.: 282

This telegram is from Mr. A. Manuel Fox and the Secretary of the Treasury for Mr. Adler. Reference is made to telegram no. 395, sent at 10 a.m. on the 11th of April, 1942, by the Embassy, no. TF-26.

There is no objection on our part to the change under contemplation.

WELLES  
Acting

## EXCHANGE STABILIZATION FUND

APR 11 1942

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK NEW YORK

ATTENTION L. W. KROGER

PLEASE TRANSFER BY CABLE THROUGH THE BANK OF ENGLAND, LONDON,  
\$300 TO THE CHASE NATIONAL BANK, BEEKLEY SQUARE, LONDON, FOR  
ACCOUNT OF LAWREN W. CASARAY, SPECIAL ASSISTANT TO THE  
AMBASSADOR, AMERICAN EMBASSY, LONDON STOP YOU ARE HEREBY  
AUTHORIZED TO DEBIT \$300 PLUS CABLE COSTS TO THE ACCOUNT ON  
YOUR BOOKS ENTITLED "SECRETARY OF THE TREASURY, SPECIAL ACCOUNT"  
STOP SOLIDP

(Signed) D. W. BELL

ACTING SECRETARY OF THE TREASURY

RH:km  
4/11/42

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 11, 1942

TO Secretary <sup>Agency</sup> Morgenthau  
 FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£17,000
Purchased from commercial concerns	£28,000

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

The Canadian dollar discount narrowed to 13-1/8%, as compared with 13-1/4% yesterday.

The Argentine peso, which has been quoted at .2370 so far this month, advanced to .2375 today.

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

Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2830
Cuban peso	3/32% premium

The Federal Reserve Bank of New York purchased 330,000 Swedish kronor from a New York bank at .2385-1/2 for account of the Central Bank of the Uruguayan Republic. The latter declared that the kronor are for commercial use.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

COPY NO 13

BRITISH MOST SECRET

(U S, SECRET).

OPTEL NO. 119.

Information received up to 7 A.M. 11th April, 1942.

1. NAVAL.

A Russian submarine was badly damaged by mine recently off North Cape, the crew were rescued by another submarine but sank their own in order to avoid capture. The R.N. Cruiser which was damaged in the recent air raids sailed from Malta on the afternoon of the 8th and has arrived safely at Gibraltar, she was repeatedly attacked by enemy aircraft on passage but suffered no further damage. It is confirmed that Australian Destroyer and H.M. Corvette were sunk, 3 Japanese fighters were shot down in this action. (Vide OPTEL J.118). 2 British tankers were bombed and sunk off Ceylon on the 9th and a British merchant vessel on passage from Bombay to Basra has also been reported sunk.

2. MILITARY.LIBYA

9th. Enemy activity increased on our Southern flank, one of our columns engaged enemy tanks in the area of El Cheima about 20 miles South-West of Gazala and claims to have destroyed several.

BURMA.

The Chinese report that the Japanese are digging in on the Sittang front.

3. AIR OPERATIONSWESTERN FRONT

10th. During operations over the Calais area by 19 Squadrons of Spitfires, 6 enemy fighters were destroyed, 4 more probably destroyed and 10 damaged. 5 of our aircraft were lost.

10th/11th. 309 aircraft were despatched. Essen - 251. Havre - 40. Sea Mining, offensive patrols, leaflets, etc. - 16. Visibility at Essen was poor but the Havre attack reported successful. 14 aircraft missing and 4 crashed, 5 members of crews killed and 2 baled out over Germany.

MALTA

Between 6 p.m. 9th and 1 p.m. 10th, 89 aircraft attacked. Buildings at Grand Harbour and civilian property elsewhere were damaged. 1 Wellington was destroyed on the ground and Hal Far aerodrome cratered. 1 enemy bomber was destroyed by A.A.

CEYLON.

Reference yesterday's Ceylon paragraph. Later report. Trincomalee was attacked by 54 bombers, escorted by 40 fighters. Enemy casualties during this raid and an attack by Blenheims on the Japanese Naval force were 18 aircraft destroyed, 12 probably destroyed and 2 damaged. Our casualties were 5 Hurricanes (4 pilots safe), 5 Blenheims and 1 Catalina.

359

This story was based on an interview  
with Senator George. There was no press re-  
lease.

The Washington Post  
APR 12 1942

## George Urges U. S. 'Induce' Savings as Inflation Bar

Asks Tax Deduction To Boom Bond Sales; Sees Compulsory Thrift Probable

By the Associated Press

A program of "induced savings" to help ward off inflation and finance the war was advocated yesterday by Chairman George (Democrat), of Georgia, of the Senate Finance Committee.

At the same time George and other Senators urged overall control of prices and wages, replacing the present selective price control system, as part of the general anti-inflation campaign that President Roosevelt said yesterday was being mapped.

"If we were brutally realistic we would know that some system of compulsory savings is not far off," George said in an interview. "Before we get to that I favor trying a voluntary system of induced savings, as part of the pending new tax bill."

### Would Allow Deductions

George explained that by "induced savings" he had in mind a system whereby a taxpayer would be allowed certain deductions from net taxable income for income invested in Government bonds, or other war securities.

George also said he felt that a "withholding tax is inevitable now or later" and suggested this might be started at 5 per cent of "all wages, salaries, dividends, and interest payable at the source." While Treasury authorities have talked about a 15 per cent withholding tax, George said he favored a start at the 5 per cent level, adding that this should raise four billion dollars in revenue.

George, discussing excessive profits, said he believed these could best be reclaimed under tax programs, but that some special overall limit on profits from war contract profits might be advisable.

### Others Support Controls

Support for overall control of prices, wages and salaries has been voiced by Senators O'Mahoney (Democrat), of Wyoming; Vandenberg (Republican), of Michigan, and Pepper (Democrat), of Florida, as well as George.

O'Mahoney told reporters the public and country were "impatient with Washington" because of a tendency to "take half steps" on the war program and related problems.

The Western Senator said the public wanted a "full utilization of our human and material resources" and this could be attained best through all-out programs, including something akin to the Baruch plan.

A general ceiling on prices has been advocated by Bernard Baruch, New York financier who was chairman of the War Industries Board.

AP Wirephoto

"The prevention of inflation involves not only the freezing of prices but it also involves a comprehensive tax program," O'Mahoney said. "The longer we delay in adopting both of these policies, the greater will be the difficulty because we'll be constantly confronted with legislative riders directed toward the same end."

Meantime, the Office of Emergency Management, over-all war agency under President Roosevelt, issued a memorandum warning that the United States might lose the war unless inflation is controlled.

In joining the battle against rising prices, the OEM said:

"Either we control inflation, either we stop the runaway, or we risk losing this war and with it everything the United States of America means to us all."

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 120

Information received up to 7 A.M., 12th April, 1942.

1. NAVAL

On afternoon 11th a homeward bound convoy from MURMAJSK was attacked by a large number of enemy aircraft 120 miles north of KOLA INLET. One ship was damaged. On 11th/12th, two of our destroyers engaged 3 E-boats off LOVESTOTT and damaged one of them. In heavy raids on MALTA on 10th and 11th one of H.M. destroyers was sunk in dock.

2. AIR OPERATIONS

WESTERN FRONT. 10th/11th. About 248 tons of H.E. and incendiaries were dropped over the ESSEN area, 32 R.C.A.F., 28 R.A.A.F., and 9 New Zealand aircraft took part in the night's operations, two Australians were among those missing.

MALTA. Between 4.00 P.M. 10th and 1.30 P.M. 11th, about 200 enemy aircraft attacked. Further damage was caused at GRAND HARBOUR and Admiralty House was destroyed. On the aerodromes, 6 of our aircraft were destroyed on the ground. Fighters and A.A. shot down 5 enemy aircraft, probably destroyed 2 and damaged 3 for the loss of 3 Hurricanes (Pilots safe).

10th. Japanese bombed railway communications in the PYINIANA area.

BRITISH MOST SECRET

(U.S. SECRET)

OFFEL No. 1221. NAVAL

One of H.M. submarines sank two ships of six thousand and seven thousand tons, probably empty troop transports, in the MALACCA STRAIT on the first. One of H.M. Indian Sloops was bombed and sunk off the Burman coast on the sixth.

Attacks on Shipping. Two ships (one Russian and one Panamanian) in convoy returning from RUSSIA were sunk by U-boats early on thirteenth. One British ship sunk south of CEYLON on seventh. A Dutch ship sunk off CAPE PALMAS. An Egyptian 8,000 ton ship set on fire off PORT SAID on 11th has been beached. Two merchant vessels damaged in air raid on MALTA on 12th. Three other ships reported attacked in Western Atlantic but not definitely sunk.

2. MILITARY

LIBYA. 12th. Patrol activity continued. Prisoners taken on the eighth were 165 Italians including five officers, of eight tanks claimed four were burnt out and enemy recovered the others.

BURMA. Our forces on the IRRAWADDY Front were in contact with enemy column and were being heavily pressed early on the 12th. Another enemy column was being attacked ten miles east of HIGYAUNGE, further south a third column was reported at SINBAUNWE but no contact has been made.

3. AIR OPERATIONS

WESTERN FRONT. 12/13. ESSEN. About 147 tons of high explosive and 123 tons of incendiaries were dropped by 178 aircraft, including 36 heavy over the ESSEN area. Bombs included 25 four thousand-pounders and 47 two-thousand-pounders, also 233 incendiaries of 250 pounds. Industrial base or a smoke screen made identification difficult but a large number of aircraft attacked the target area. Many scattered fires, including two large ones and several reports of a very large explosion in the centre of the target area. 38 R.C.A.F., 29 R.A.A.F. and 10 New Zealand aircraft took part. Two Canadian were among those missing.

GENOA. Seven aircraft attacked. Almost complete cloud, no ground features identified.

TURIN. Two aircraft dropped three tons, including 2 two thousand pounders in clear weather. There was no blackout on arrival. 13th. Spitfires made two large scale sweeps over Northern France. Enemy defensive patrols totalled 195 sorties but few encounters resulted. One Focke Wulf 190 was destroyed and another damaged. 13/14. 55 aircraft were despatched, 48 of them minelaying. One Stirling is missing. About 30 enemy aircraft operated off the east coast, less than half of them came inland.

MALTA. 12th. An additional 60 enemy aircraft attacked GRAND HARBOUR and our aerodromes; a wireless station was damaged. Anti-aircraft fire destroyed five bombers.

BURMA. 11/12th. Five Blenheims carried out a successful raid in the area twenty miles north of ALLANMYO. On the 12th a reconnaissance reported 40 ships averaging 5000 tons in RANGOON HARBOUR. (?Enemy) bombers directed their attacks on our railway communications.

4. HOME SECURITY

13/14th. A few bombs were dropped in LINCOLNSHIRE, YORKSHIRE and LANCAIRESHIRE; about 40 casualties occurred at GRIMSBY.