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LT. GREGSON BAUTZER, U.S.M.R.

This officer is Herman Spitzel's attorney and obtained his commission through his client.

He is stationed in Washington in the same Division with Spitzel, and is under investigation with Spitzel.

He has been reported several times as being engaged to DOROTHY LAMOUR, the movie actress. About a year ago he accompanied her on a trip to Honolulu.

HERMAN SPITZEL'S ASSOCIATES

JOHNNIE ROSSELLI - allegedly an insurance business associate of Spitzel. He is reported to be in control of Italian racketeers in Los Angeles, Cal. He has been arrested several times and has been involved in a murder case.

RAYMOND KLEINBERGER - Police Commissioner under Mayor Shaw.

JOSEPH MARCHETTI - Judge, Los Angeles Municipal Court.

ORSATTI BROTHERS - Frank Orsatti, actor's agent, was at one time connected with TONY PARMAGINI's narcotic syndicate. He quit this business several years before the gang was sent to the penitentiary. Recently, he figured in a transaction involving BENNY SIEGEL, who is being held in Los Angeles for New York authorities on a charge of murder. Mysterious financial transactions took place between CHARLES WARD, politician of Minneapolis, and BENNY SIEGEL, in which Orsatti was in some way involved. The Income Tax Unit has investigated these money transfers.

o h m asked me ⁵¹ Klaus
to keep him informed.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 13, 1942

TO Secretary Morgenthau
FROM Mr. Klaus

I learned unofficially from ^{the} the Department of Justice that a criminal case against Anastasi Andre Vonsiatsky is being prepared to be submitted before a Grand Jury in Connecticut, probably next week.

I thought you would be interested.

JK.

GENERAL ANILINE & FILM CORPORATION

230 Park Avenue

New York

April 13, 1942

Mr. Joseph J. O'Connell, Jr.
 Assistant General Counsel
 Treasury Department
 3303 Chanin Building
 New York, N. Y.

Dear Mr. O'Connell:

On April 11, Secretary Morgenthau requested information regarding war production progress in our Binghamton plant.

The present management appointed by Secretary Morgenthau were elected to office on March 16 under directive which emphasized the desirability of immediately converting all capacity, in so far as possible, to war production. Mr. A. E. Marshall was assigned to the Binghamton Division. He arrived at Binghamton on March 22, since which time the present Board has executed the following contracts:

March 24	Sextants for the Air Corps	\$2,259,624.90
March 26	Bomb Tail fuse contract	1,054,868.68
March 27	Collimators for the Air Corps	108,062.00
April 7	Air Corps cameras	122,092.00
April 13	Extension of Bomb Tail Fuse contract for production after January 1, 1943	783,000.00
	Navy Torpedo Parts	70,782.04
	Buffalo Arms Co., (Sub- contract)	114,188.00
		<hr/>

Total war production of war contracts executed to date	\$4,512,617.62
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Pending contract negotiated but not executed:

Army Air Corps for contact printers	\$474,609.00
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Mr. Joseph J. O'Connell Jr.

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4/13/42

We are pleased to report that we have an assured gross for the next nine to twelve months of something over five million dollars, as compared with the previous peacetime peak production of two and one-half million dollars.

These contracts use over 90% of the floor space in the camera plant on a three shift-six day per week basis and it is estimated that the payroll will be increased from 400 to approximately one thousand by the end of June. This company has just purchased in Binghamton a two story and basement building of approximately 40,000 square feet of floor space partially for the purpose of storing old equipment used for peacetime production in the camera and in the Ozalid plants in order to enable us to increase war demands.

In the case of contracts for sextants and bomb tail fuses, we have provided for revision of prices downward after experience has been gained in manufacture and manufacturing costs have been properly developed. We do not expect our original quotations to leave other than a nominal margin of profit. An opportunity is reserved for revising prices downward in the event we are able to institute economies in a greater efficiency over the previous production methods.

Following is a record of production of the Ozalid reproducing machines. I understand that practically all of this production is now on high priorities for Army and Navy requirements.

January 1942	\$260,664.01
February 1942	278,679.55
March 1942	362,550.00
	<u>\$901,893.56</u>

The plants are in process of being converted to wartime production and we are committed to full use of the factory facilities on a three shift per day-six hour basis. It may be desirable, therefore, to defer invitation to representatives of the Army Signal Corps and the Army Air Corps for a few weeks until the plant is operating rather than to invite inspection at a time of conversion which, of course, involves considerable confusion.

Joseph J. O'Connell, Jr.

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4/13/42

I feel that Mr. Marshall has taken hold of this part of the business in an aggressive, intelligent manner and deserves a great deal of credit and I hope that you will agree. I also think that we can show a satisfactory operating profit in wartime production and also adhere to the highest business standards.

There is attached herewith a copy of a letter addressed to the Surgeon General of the U. S. Army.

Very truly yours,

/s/ R. E. McConnell

R. E. McConnell
President

April 13, 1942

Surgeon General
U. S. Army
Washington, D. C.

Dear Sir:

I am writing you at the suggestion of the Secretary of the Treasury to offer my cooperation along the following lines.

Control of the General Aniline & Film Corporation was vested in the Secretary of the Treasury by Vesting Order, dated February 16, 1942, pursuant to Section 5-B of the Trading with the Enemy Act, because it was found that ownership of control of this company was the property of nationals of a foreign country designated in Executive Order No. 8389.

The Winthrop Chemical Company, which is jointly owned by General Aniline & Film Corporation and Sterling Products, Inc., manufactures a broad line of pharmaceutical products which have their origin very largely in German patents, including, among others, the new quinine substitute, atabrine. It occurred to the Secretary of the Treasury that the manufacture of these various pharmaceutical products might be of interest to you or someone in your Department and I would like to offer you the facilities at my disposal in case any of your officers wish to meet any of our personnel or visit any of our plants or laboratories.

Will you please let me know if this matter is of any interest to you.

Very truly yours,

Robert E. McConnell, President
GENERAL ANILINE & FILM CORPORATION

REMc:T

cc: Mr. James Hill, Jr., President, Sterling Products, Inc.

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.....	2,958	2,125	1,925	7,008
Saturday April 11.....	2,352	2,599	2,646	7,597
Total actual shipments, April 5 - April 11.....	18,952	15,478	13,679	48,109
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 13, 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 11, 1942

Name of company and commodity	Tonnage						
	Total	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday
	March 30 to April 4	April 5	April 6	April 7	April 8	April 9	April 10 to April 11
<u>Brass</u>							
American Brass Co.....	1,156		231			191	91
Crane Brass & Copper Co.....	96			39			19
Revere Copper & Brass Co.....	84		40		39	17	40
Sanvill Manufacturing Co.....	108				39		39
Wallingford Steel Co.....							19
							16
<u>Copper and brass</u>							
Revere Copper & Brass Co.....	127						
<u>Copper</u>							
Anacosta Wire & Cable Co.....						24	
<u>Nickel</u>							
International Nickel Co.....				200			
<u>Steel</u>							
Allen Wood Steel Co.....					152		
Allegheny Ludlum Steel Co.....	322		143	50	102	95	50
American Rolling Mills.....	164						
American Steel & Wire Co.....	50						
Armco International Co.....	89		474	330	277	389	224
Bethlehem Steel Co.....	1,764	254	271	275	339	533	283
Blair Strip Steel Co.....	28			50			
Brainerd Steel Co.....	50		50				
Cold Metal Products Co.....					15		
Collyer Insulated Wire Co.....							
Colorado Fuel & Iron Co.....	1,882						
Crucible Steel Co.....	91						
Firth Sterling 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	43
Johnson Steel & Wire Co.....					24		
Jones & Laughlin Steel Corp.....	398		393	332	41	30	41
Kelastman Bros.....	20						
Keystone Steel & Wire Co.....	30				145	75	110
La Salle Steel Co.....	79						
Madison Wire Co.....	34		47				34
McLouth Steel Co.....	881	51		47	51	126	221
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	149
P & M Co.....				255			
Pittsburgh Steel Co.....	51				155	134	75
Republic Steel Corp.....	3,242		575	577	648	460	949
John A. Roebling & Sons.....	104			30			
Sensac Steel Co.....							
Sharon Steel Co.....	176					30	
Superior Steel Co.....	271		31	94	62	32	28
Thomas Steel Co.....	145		58	68	18		30
Thompson Steel & Wire Co.....	56			48		75	39
Union Drawn Steel Co.....	274		166	42	42	84	42
U. S. Steel Export Co.....	3,702				29	46	
Universal Cyclops Co.....	45						9
Vulcan Crucible Co.....				50		24	22
Wallingford Steel Co.....	72						
Washington Tinplate Co.....	36					24	22
Weirton Steel Co.....	1,302				69	81	41
Wheeling Steel Corp.....	2,105		569		191	144	321
Wyckoff Drawn Steel Co.....	80						
Youngstown Sheet & Tube Co.....	714				24	84	84
Undesignated.....	11						
<u>Miscellaneous</u>							
Electro Co.....							
National Lock Washer Co.....	2						
Vanadium Corp.....	28	28	28				
Total.....	24,605	530	3,424	3,083	3,374	3,231	2,958
							2,352

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

April 13, 1942

Source: Procurement Division, Treasury Department.

STRICTLY CONFIDENTIAL

Bottom cargo for Russians sent from mills to Baltimore,
total March 30 to April 4 and daily April 5 to 11, 1942

Name of company and commodity	Tonnage							
	Total	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	March 30 to April 4	April 5	April 6	April 7	April 8	April 9	April 10	April 11
Brass								
American Brass Co.....	96		47	47	47	94	47	47
Chase Brass & Copper Co.....	58		23		19			
Copper								
Wolverine Tube Co.....	10							
Steel								
Allegheny Ludlum Steel Co.....					11			
American Rolling Mills.....	352							
Bethlehem Steel Co.....	360			64		64	31	175
Blair Strip Steel Co.....	21					19		
Breinerd Steel Co.....							50	
Gold Metal Products Co.....	53						33	
Colonial Steel Co.....	18							
Great Lakes Steel Co.....	537	146		257	36		285	292
Inland Steel Co.....					340		324	61
Johnson Steel & Wire Co.....	24							44
Jones & Laughlin Steel Corp.....	1,592			870	1,084	1,236	69	83
Keystone Steel & Wire Co.....	227						39	
Otis Steel Co.....	111				105	149		
F & M Co.....					51			
Republic Steel Co.....	5,397	1,091	1,166		260	343	474	496
John A. Roebling & Sons.....		33						
Rustless Iron & Steel Co.....	13							
Seneca Steel Co.....			28			26		50
Sharon Steel Co.....	128	32	29		28	32	23	35
Thomas Steel Co.....	38							442
U. S. Steel Export Co.....	611	225		45	476	1,039	509	
Universal Cyclops Co.....	25							
Washburn Wire Co.....	4							
Weirton Steel Co.....	182			33	165	215	94	137
Youngstown Sheet & Tube Co.....	153			112		382	432	384
Undesignated.....	187							
Miscellaneous								
Hubbard & Co.....	115							353
McKenna Metals Co.....								
Undesignated.....	67							
Total.....	10,379	371	1,226	2,651	2,622	3,884	2,125	2,599

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

April 13, 1942

Source: Procurement Division, Treasury Department.

STRICTLY CONFIDENTIAL

Bottom cargo for Russians sent from mills to New York,
total March 30 to April 4 and daily April 5 to 11, 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	Friday : April 10	Saturday : April 11
<u>Bress</u>								
Phelps Dodge Co.....			113					
<u>Copper</u>								
United Wire & Supply Co.....	33							
<u>Iron</u>								
Oliver Iron Co.....							22	
<u>Steel</u>								
American Rolling Mills.....	1,225							255
Arcoo International Co.....	541		134	141				123
Bethlehem Steel Co.....	50							
Carnegie Illinois Steel Co.....	331							
Cold Metal Products Co.....	84	53						
Colorado Fuel & Iron Co.....	1,332							
Crucible Steel Co.....				28				
Great Lakes Steel Co.....		274	76	266	323	350	177	175
Halcomb Steel Co.....			27					39
Heppenstahl Co.....	101						59	
Indiana Steel & Wire Co.....							135	
Inland Steel Co.....	695		234		35	104	58	525
Jones & Laughlin Steel Corp.....	135		339	46	46		38	
Madison Wire Co.....	25							
McLouth Steel Co.....	54							54
National Standard Co.....			37	74	328	260	140	142
Otis Steel Co.....	652				51			
P & M Co.....						542		384
Pittsburgh Steel Co.....	1,349			547		102		
Republic Steel Co.....	940		89	137	36		27	
Sheffield Steel Co.....						65		
U. S. Steel Export Co.....	1,336	40	73	100	334	953	968	635
Washington Tin Plate Co.....						34		
Weirton Steel Co.....	117					45		
Wheeling Steel Corp.....	78							
Wyckoff Drawn Steel Co.....	399		118	40	39	76	38	37
Youngstown Sheet & Tube Co.....	1,829	331	157	635	915	361	263	277
Total.....	11,306	698	1,397	2,014	2,107	2,892	1,925	2,646

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

April 13, 1942

Source: Procurement Division, Treasury Department.

For Miss Chauncey

**TREASURY DEPARTMENT
OFFICE OF THE SECRETARY**

April 13, 1942.

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended April 1, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.



dm:4/13/42

C
O
P
Y

For Miss Chauncey

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FEDERAL RESERVE BANK
OF NEW YORK

April 9, 1942

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended April 1, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:vw:4-11-42

STATEMENTS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended April 1, 1942

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	D E B I T S				C R E D I T S					D E B I T S			C R E D I T S			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	506.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	58.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.8	2.8	+ 1.3
Dec. 4 - Dec. 31	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	6.2	2.6	- 1.1
1942																
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
WEEK ENDED:																
Mar. 4	8.1	-	8.1	52.4	2.6	4.3	-	45.5	+ 44.3	2.1	-	2.1	0.4	-	0.4	+ 1.7
11	2.9	-	2.9	18.4	5.2	-	-	13.2	+ 15.5	2.0	-	2.0	0.1	-	0.1	- 1.9
18	9.5	-	9.5	7.5	3.3	-	-	4.2	+ 2.0	1.3	-	1.3	0.2	-	0.2	- 1.1
25	11.9	-	11.9	8.3	0.2	3.4	-	4.7	- 3.6	0.1	-	0.1	0.5	-	0.5	+ 0.2
Apr. 1	14.1	-	14.1	12.7	9.2	-	-	3.5	+ 1.4	2.3	1.3	1.0	2.4	-	2.4	+ 0.1

Weekly Average of Total Debits Since Outbreak of War

Through April 1, 1942 **\$ 7.9 million**

- * For monthly breakdown see tabulations prior to April 23, 1941.
- ** For monthly breakdown see tabulations prior to October 8, 1941.
- (a) Includes \$1 million received from U. S. Government for account of U. S. Navy.

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

(In millions of Dollars)

Week ended April 1, 1942

British
Cumulative

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE							
	DEBITS			CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (official) (b)	Other Credits		Total Debits	Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,366.1	52.0	420.1	+ 35.0	866.3 (a)	416.6 (e)	449.7	1,095.3 (b)	900.2	195.1 (c)	+229.0
War period through December, 1940	2,792.5	1,425.6	1,366.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	6.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.6	69.6	18.8	51.2	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
WEEK ENDED:															
Mar. 4	39.3	23.7	15.6	59.2	-	-	59.2	+ 19.9	0.1	-	0.1	0.1	-	0.1	-
11	16.9	15.9	1.0	8.2	-	-	8.2	- 8.7	-	-	-	0.3	-	0.3	+ 0.1
18	24.3	19.3	5.0	26.3	-	-	26.3	+ 2.0	-	-	-	0.1	-	0.1	+ 0.1
25	21.1	14.2	6.9	18.8	-	-	18.8	- 2.3	-	-	-	0.1	-	0.1	+ 0.1
Apr. 1	19.8	13.3	6.5	58.9	-	-	58.9 (f) + 39.1	-	-	-	-	-	-	-	-

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 39.1 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

Week ended April 1

Cumulation from July 6, 1940 \$ 152.7

million

million

*For monthly breakdown see tabulations prior to April 23, 1941.

**For monthly breakdown see tabulations prior to October 8, 1941.

(See attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Trade Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of war securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York Banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes: \$40 million received from the R. F. C. representing partial payment of the purchase price of Australian wool,
\$ 4 million received from Central Bank of China covering purchase of £1,000,000.
\$ 4 million received from U. S. Gov't for account of U. S. Army abroad.
\$1.3 million transferred from official Australian account.

Treasury Department
Division of Monetary Research

66

Date..... April 1319 42

To: Miss Chauncey

From: Mr. White

The Secretary would, I believe
be interested in glancing at this.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 30, 1942

TO Mr. White
FROM Mr. Hoflich

Subject: British Income Tax on Wage Earners:
Criticism of Method of Collection at Source

1. According to cable advice from Casaday, the present system of collecting at the source the income tax on British wage earners has been attacked by some of the weekly journals, newspapers and a number of employers, on the following grounds:

a. Because of the great complexity of the present method, it cannot be explained satisfactorily to workers.

There apparently has been a deficiency of explanatory propaganda. Not until last month was there issued an effective pamphlet, "Income Tax Quiz for Wage Earners."

b. Workers in the lower wage brackets are subjected to hardship. The size of current tax deductions depends on the amount of wages earned in the previous assessment period. It is argued that the tax deduction may come at a time when earnings are far below those earned in the assessment period, due to seasonal fluctuation, illness, or lack of employment at the end of the war.

Inland Revenue authorities have vetoed plans to base current tax deductions on current earnings, largely because of the greater complications and increased labor which such a change would involve.

2. The Trades Union General Council has dropped its demands for a change in the method of assessment and deduction, the system is now being accepted, and it seems obvious that it has come to stay at least for the duration of the war.

3. There also seems to be considerable feeling against any plan by which workers would have to disclose details of family and personal status to employers. It does not seem to be clear whether this means opposition to present collection at the source, but Casaday hopes to obtain more information on the subject this week.

(Cable No. 1488, London, March 27, 1942.)

DEPARTMENT OF STATE

Washington

In reply refer to
FD 841.5151/1897

March 30, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no. 1488, Section 5, dated March 27, 1942, from the American Embassy, London, England, transmitting a message for the Secretary of the Treasury from Casaday and Penrose. Sections 1, 2, 3, and 4 were sent to Treasury on March 28, 1942.

Enclosure:

From Embassy, London,
no. 1488, March 27, 1942.

vw: eh: copy
3-30-42

C
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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 27, 1942, 10 p.m.

NO.: 1488, Sections 1, 2, 3, 4

This message is in strict confidence from Casaday and Penrose for the Secretary of the Treasury.

The alleged difficulties involved in the present system of collecting at the source the income tax on the wage earners has recently come under considerable discussion. 2,500,000 wage earners came under this system in 1941. In January 1942 3,000,000 more workers at lower wage levels were brought into the system. There was a delay for over a week in getting the forms out because of the extraordinary pressure of work on the inland revenue. Considerable complications were caused for some time by this delay.

The present system has been attacked by some of the weekly journals, newspapers and a number of employers on the following grounds:

1. Because of the great complexity of the present methods they cannot be satisfactorily explained to workers.
2. Workers in the lower wage brackets under this system of assessment are subjected to hardship.

In relation to the first of these points, it may reasonably be held that there was a deficiency of explanatory propaganda. Not until February 1942 was there issued an effective pamphlet, INCOME TAX QUIZ FOR WAGE EARNERS. Other methods of spreading propaganda such as the radio seem to have been used insufficiently. The incompatibility of extreme simplicity in the way the tax is assessed and the requirements of equity is a strong argument Government spokesmen have advanced but the most does not seem to have been made of this argument.

Regarding the second of these points in as much as only three months of the year of assessment and nine months of the following year make up the period in which the tax is deducted, the argument has been presented that the deduction of tax may come at some time when because of seasonal fluctuation, illness, or lack of employment at the end of the war, the current wages of the workers are far below the average they earned during the assessment period.

Some elaborate and ingenious schemes to replace the present method of taxation by a system of current taxation of wages making the year of deduction and the base year coincide have been worked out by a few employers and the Inland Revenue Staff Federation.

- 2 -

For a time the General Council of the Trade Union supported one of these schemes and pressed the Treasury to adopt it. Keynes indicates, however, that after conferring with the Inland Revenue, the T. U. C. delegates dropped their demands and that at present it seems unlikely that there will be a change in the system. It seems obvious that the difficulties have been greatly exaggerated by the agitation by the London ECONOMIST and newspapers and that the system is being accepted and has come to stay at least for the duration of the war in its general lines.

Some of the arguments which caused the Inland Revenue to veto the plans to make the base year and the year of deduction coincide are as follows:

(1) At a time when clerical labor is very scarce, such plans would involve more work for employers.

(2) Deductions from wages based on computations by the employer would be involved and no opportunity would be given the worker to question them until the end of the year. Now a notice of assessment is received by the worker and he can appeal against it before the deduction of any tax. The Inland Revenue tells the employer in advance what tax to deduct.

(3) Usually not until the end of the week does the employer know what the total earnings of the workers are. Under the proposed plans all the computations of the tax would have to be done on the last day, which would be impossible so there would always be a one week lag.

MATTHEWS

C
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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 27, 1942, 10 p.m.

NO. : 1488, Section 5.

There seems to be considerable feeling in Great Britain against any plan by which the worker would have to disclose details of family and personal status to the employer.

I hope that I can obtain more information in detail next week on this subject. In the meantime the conclusion may be drawn that the Inland Revenue prefers that no fundamental changes be made in the present methods of collecting at the source income tax. Their most difficult task has been to get the forms out and to get them filled out during the three months before the beginning of the deduction. They think that an additional month may be necessary.

Of course, all of the preceding should be kept in strict confidence.

A summary of the criticisms which have been presented against the existing system of taxation and collection of income tax as applied to wage earners is being forwarded by air pouch for your confidential information. Relevant documents and clippings will accompany the summary.

END OF MESSAGE.

MATTHEWS

eh:copy 3-30-42

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 13, 1942

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 53,000
Purchased from commercial concerns	£111,000

Of the latter amount, £100,000 was purchased from the International General Electric Company and reportedly represented dividends.

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

The Canadian dollar discount, which has been quoted between 13% and 13-1/4% during the past two weeks, narrowed to 12-7/8% today. No unusual activity was reported.

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

Argentine peso (free)	.2373
Brazilian milreals (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelian bolivar	.2830
Cuban peso	3/32% premium

We sold the following amounts of gold, which were earmarked for account of the banks indicated:

\$ 992,000 to the Central Bank of El Salvador
<u>549,000 to the Surinam Bank</u>

\$1,541,000 Total

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,869,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

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

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

We made no purchases of silver today.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 121

Information received up to 7 A.M., 13th April, 1942.

1. NAVAL

Reference OPTEL No. 120 naval sub-paragraph two. One of our destroyers reports destroying one E-boat and damaging a second, the other seriously damaged the third. Our ships reported no damage or casualties. As a result of bombing attacks in BAY OF BENGAL on fifth and sixth about 19,000 tons of shipping was abandoned and about 10,000 tons damaged.

2. MILITARY

BURMA. 11th. Heavy Japanese attacks, supported by all arms have been reported upon the Chinese forces at SWA. Fierce fighting is in progress. Japanese reinforcements, estimated at one division have arrived at RANGOON.

3. AIR OPERATIONS

WESTERN FRONT. 12th. Mine Bostons, escorted by 21 squadrons of fighters (including aircraft from two United States "Eagle" squadrons, one R.C.A.F. and one New Zealand squadron) successfully attacked the railway centre at HAZEBROOK. Enemy fighters were encountered in strength, four were destroyed, four probably destroyed and ten damaged. We lost fifteen Spitfires, including one United States and one Canadian (four pilots safe) and one Canadian Boston. 12/13. 327 aircraft were sent out (ESSEN 251 (including 49 heavy) GENOA 18, HAVRE 27, SEA-MINING 20, Dutch aerodromes 4, Leaflets PARIS 7; 10 are missing and three crashed on return.

LIBYA. 11th. Seven Tomahawks intercepted twenty dive bombers escorted by ten fighters off TORRUK forcing them to jettison their bombs. Three enemy aircraft were destroyed and one damaged. We lost five Tomahawks and three pilots.

MALTA. 11th evening and 11th/12th. Eighty-nine aircraft attacked HAL FAR and TAKALI aerodromes were rendered temporarily unserviceable. 12th. Fifty-three aircraft came over. Our fighters and anti-aircraft destroyed five, probably destroyed two and damaged two. Four of our aircraft were destroyed on the ground.

BURMA. 10th. Enemy fighters machine-gunned LOIVING aerodrome, damaging five AVG Tomahawks on the ground. Hurricanes and AVG Tomahawks shot down seven enemy aircraft. Two Hurricanes were lost.

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



April 13, 1942

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

Dear Henry:

The attached has just come to us
from our London office. It is the French
subdirective of the British Political
Warfare Executive.

Sincerely,

Bill
William J. Donovan

War.

a) Britain is beginning to take the offensive herself, no longer merely preparing to resist German invasion. In order to show a new spirit offensive indications of eagerness and impatience of the British public may be used. Weather conditions are the only limitations to an RAF offensive against Germany.

b) Russia - Still holds initiative.

c) Air. Do not exaggerate scale attacks by present standards. They are only average. Weight these attacks will increase as weather improves and more aircraft are produced. In stating the damage done in these raids, care should be exercised. Use official evidence only.

Vichy and France:

a) This week Laval's chance of coming back in the Vichy Cabinet seems even more remote. The weight of our attack should be on Pucheu and Darlan and the helplessness of Petain. We should not, however, forget Laval.

b) The supplies to North Africa should be treated in accordance with Official communiques from Washington and London.



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

April 13, 1942

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

Dear Henry:

The attached information is from the British
Political Warfare Executive-Italian Directive.

Sincerely,

Bill
William J. Donovan

SECRET

CONFIDENTIAL

Background:

Emphasis on "bright future" has suddenly replaced the campaign of intimidation and pessimism which followed Mussolini's speech of March 26th. They have dropped the propaganda against Russia probably because (a) unfavorable reaction on the part of the industrial workers (b) difficulties in the way of sending more troops to Russia. They have returned to the thesis "mare nostrum" and have dropped the references to specific territorial claims against France. This is probably due to (a) Hitler's having forbidden their formulation (b) Italian public's having lost interest. The grain situation has grown constantly worse. This is illustrated by (a) Mussolini's visit to Frosinone (b) fifth postponement of the date of delivery of the grain to the state pools, (c) the fact that the Draconian decrees against farm s.irkers are not enforced (d) receipt of rye from Germany.

Propaganda:

(a) Point out that alleviation of the Italian food situation depends on the maintenance of order in the Balkans; stress that the famine in Greece is another drain on the Italian economy; comment on fighting in Yugoslavia and elsewhere in the Balkans.

(b) At the present the Italian Headquarters on the Russian front are at Staling with the Italian troops grouped around Gorlokoval. Emphasize the fighting in this area, especially along Taganrod-Dniestro Etrousk railway. Keep in mind that the Italian people are not being told the details.

(c) Bear in mind the possibility that there may be an attack by Rommel.

(d) Draw attention to the fact that eighty per cent of RAF aircraft abroad and ninety per cent of the aircraft based in Britain were manufactured in Britain.

Regraded Unclassified

COORDINATOR OF INFORMATION
WASHINGTON, D. C.

April 13, 1942

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



My dear Mr. Secretary:

There is attached a private report
from Zurich which was received by PWE
under date of April 10, 1942.

Sincerely,

Bill
William J. Donovan

Attachment

SECRET
COORDINATOR OF INFORMATION

General Oshima, the Japanese Ambassador in Berlin, will be accompanied on his trip to Sofia, Budapest and Bucharest, by a high German Foreign Office official who will act as interpreter and also by the Counsellor and First Secretary of the Embassy. Emphasizing Oshima's strong advocacy of Japanese intervention against Russia, diplomatic circles declare that at Berlin's wish he has undertaken the mission to urge reluctant Bulgaria, Rumania, and Hungary to accede to the German demands for full scale military participation in a Russian offensive. Oshima, by explaining his conviction that Japan will attack Russia at the moment the German offensive is launched, will add weight to these persuasions.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 13, 1942

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Summary of Military Reports

Malta

The scale of attack against Malta is the most concentrated and sustained in the history of air warfare. The average intensity of effort in March was 100 attacks per 24 hours. In April this has increased to over 200 attacks per 24 hours. Field Marshal Kesselring, who is in charge of the attacks, failed against the R.A.F. in the Battle of Britain. His attempt at bombing Moscow was also smashed. The prestige of the German Air Force is now heavily at stake in the attack on Malta.

Malta's ability to withstand the German attacks, so far, 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 concentration on Malta has enabled the British to maintain air superiority in Libya.) The German effort against Russia has also been weakened, since nearly all the German squadrons attacking Malta came originally from the Russian front.

(U.K. Operational Report, April 10, 1942)

Supply Routes to Russia

It is estimated that there are between 150 and 175 German long-range bomber types between Trondheim, Norway, and Petsamo, Finland, suitable for anti-shipping operations. (In addition, the bulk of the German Navy is also engaged in the attempt to cut the supply routes to Russia.)

(U.K. Operational Report, April 10, 1942)

R.A.F. Activities

On the night of April 8/9, 250 tons of high explosive and incendiaries were dropped over the Hamburg area. Owing to bad weather, most aircraft bombed on estimated time of arrival, (i.e. bombs were dropped over the approximate location of Hamburg. It seems that the old illogical practice of bombers bringing their bombs back to England because they could not locate their specific target has been discontinued.)

(U.K. Operational Report, April 11, 1942)

Voice of the Chief - Wholesale Corruption in Germany

"While the common people stand in long queues in front of the stores in the cold and dirt of the streets, the Party Commune in the homeland encourages the farmers in their profiteering. All the Nazi officials have their extra rations delivered from the country to their city homes in packages and boxes. Every second farmer's son, in return, enjoys his firmly established privileges. And the farmer certainly knows why he is doing all this. In addition to the dizzy high prices, there is added an extra premium in the shape of a small favor or two.

"Everybody knows about these actions, only the Gestapo seems to be ignorant. Once in a while, they try to calm the masses with the arrests of small insignificant profiteers while they let the big commune bosses carry on unmolested."

"I have collected quite a number of these big-time parasites and will make them known within the next few days. It is about time we finished off these lice who paralyze our will to win the war."

(Federal Communications Commission, April 10, 1942)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 14, 1942.
4/13/42

Press Service
No. 31-16

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 15 and to mature July 15, 1942, which were offered on April 10, were opened at the Federal Reserve Banks on April 13.

The details of this issue are as follows:

Total applied for - \$311,219,000
Total accepted - 150,073,000

Range of accepted bids: (Excepting two tenders totaling \$150,000)

High	- 99.960	Equivalent rate	approximately	0.158	percent
Low	- 99.922	"	"	0.309	"
Average					
Price	- 99.929	"	"	0.281	"

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

-oOo-

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 14, 1942.

TO The Secretary
 FROM Mr. Kilby

As you requested, I have obtained a breakdown of the subscription figures for the new certificates of indebtedness as between banks and non-banking institutions. In this statement the non-banking subscriptions are divided in four groups.

	<u>Amount Subscribed</u>	<u>Percent of Total</u>
Banking institutions:	\$1,815M	59.3%
Other corporations:	1,061	34.6
Individuals:	36	1.2
State and local governments:	27	.9
All others:	<u>124</u>	<u>4.</u>
TOTAL	<u>\$3,063M</u>	100.0%

Individuals took very much less than they normally take on a note or bond offering. The banks took less than they usually take in notes, but substantially more than they get in bonds. A better picture of what the corporations took, as compared with other issues, will be available in about three weeks when Dr. Haas makes his analysis.

EWK

April 14, 1942.

The Secretary

Mr. Kilby

As you requested, I have obtained a breakdown of the subscription figures for the new certificates of indebtedness as between banks and non-banking institutions. In this statement the non-banking subscriptions are divided in four groups.

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Individuals:	36	1.2
State and local governments:	27	.9
All others:	<u>124</u>	<u>4</u>
TOTAL	\$3,063M	100.0%

Individuals took very much less than they normally take on a note or bond offering. The banks took less than they usually take in notes, but substantially more than they get in bonds. A better picture of what the corporations took, as compared with other issues, will be available in about three weeks when Dr. Haas makes his analysis.

ELK:arp

April 14, 1942
9:00 a.m.

LIMITATION ON PROFITS

Present: Mr. Patterson ✓
Mr. Paul ✓
Mr. Nelson ✓
Mr. Sullivan ✓
Mr. Blough ✓
Mr. Helvering ✓
Mr. Marbury ✓
Mr. Forrestal ✓
Mr. Anderson ✓
Admiral Land

H.M.JR: Randolph, do you want to state the case? Come on up here. I mean, you have been talking both with Mr. Patterson and Mr. Forrestal.

MR. PAUL: I have been following on this profit limitation ever since I had to go up before that Naval Affairs Committee following you (Mr. Patterson) and Mr. Nelson and Mr. Forrestal; and, as a matter of fact, ever since that we have been trying to work on some provision that would work, realizing that there was this terrific political pressure all over the country. We haven't been able to find anything that is satisfactory. We took the position before the Committee, as Mr. Nelson and the others did, that the best way was taxes, and probably the only way.

Well, last week I had a conference with George and Doughton, at which particularly George expressed great concern over the way things were moving, being afraid that the conference committee now having this recent bill in charge would take the House draft instead of the Senate draft, the Senate draft being reasonably innocuous, although some people over at the Navy Department think it

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is pretty dangerous as is. Saturday Mr. Patterson called me, and I also saw Mr. Forrestal, and we have been talking--

H.M.JR: He is coming; Jim is late.

MR. PAUL: And it seemed to me that it was time we all got together and consolidated our forces, because if we don't, something is going to happen here that is going to be very troublesome, indeed may go so far as to seriously impede the war effort.

ADMIRAL LAND: Specifically the amendment of this nineteen billion dollar appropriation bill?

MR. PAUL: That is right.

ADMIRAL LAND: That is what I assumed. They had me on the Christmas tree on this same subject on Vinson's committee.

MR. PAUL: The present acuteness is in connection with that appropriation bill, but, of course, the Vinson Committee is all part of the general picture.

ADMIRAL LAND: And it is part of the general public stampede for action.

MR. PAUL: That is right, and I am just a little afraid there is going to be some action. Unless we can find some constructive way of dealing with it, we are going to have a bill that is going to be very bad. I don't know whether we can, apart from taxes, get anything that will be satisfactory.

I spoke to the Secretary about it Monday, yesterday, and he immediately thought it was a good idea to have this conference.

H.M.JR: I spoke to the President on the phone and asked him if he had made any commitments one way or the other, and how he felt about it. He said he had made

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none, and he'd like us to go ahead and see if we couldn't do something about it. He'd like to see it handled through the tax way, rather than through a special bill, and he gave me a couple of his own ideas which he said he was just pulling out of the air, such as could we limit salaries to fifty thousand dollars, and so forth and so on, but I mean, he wanted to go ahead and try to do something.

Here was a suggestion I was just going to offer in view of the fact that there seems to be, unless something is done to satisfy these Congressmen in their primaries that something is being done about profits and salaries, and that is this - and I am asking for punishment when I make this suggestion, and I don't want to do it unless the departments involved really want the Treasury to do it, because I think Helvering won't talk to me for a week after I make this suggestion. That is this, if the Departments, the Army and Navy, Nelson, Maritime Commission, would like the Treasury to, we are willing through Internal Revenue auditors to go in and make the original investigation and get a finding of facts. After all, we are in there anyway with these businesses, and we would be looking for the profits on an annual basis, and not on the individual contract basis.

MR. NELSON: That is the important thing right there, Mr. Secretary. They are all thinking in terms of a contract basis. Now, the contract basis, as you know, is absolutely impractical. You'd never audit it on a contract basis.

MR. PAUL: That is the Navy's last line of defense, to at least get into an annual basis.

H.M.JR: I just say we are taking on a hell of a burden, and then my thought was, if you people wanted it, would ask us, that after we go in and find this - for instance, normally we wouldn't know what the '41 profits were or the salaries until almost a year from now.

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MR. HELVERING: Fifteen months after.

H.M.JR: Yes, but if the Army and Navy, for instance, or Nelson and the Maritime Commission, were worried or bothered about any particular contract and say, "Please go in and make a pre-audit on such and such a concern," we are prepared to do it.

MR. NELSON: We have been talking with the Federal Trade Commission about that, Mr. Secretary, they did it during the last war. They had a set-up to do it. Now, it would be a question of which could do it best and easiest, you or they.

H.M.JR: Well, I am not asking for this - this is a terrific burden. We have five thousand auditors that are in the businesses anyway, that have to go through the books; and I'd only do it if you, plus the Navy, would want us to do it, you see. I was looking for a way to be helpful.

MR. NELSON: It is very important that that be done by some agency, in my opinion. I think the War Department doesn't agree, at least Somervell. I have talked to him about it. I don't know how Bob feels, but I feel that that is highly important, and one of the first things to assure the Congressmen is that some independent agency is going to make the audit, in my opinion.

H.M.JR: Then the thought that we had is, when we got these findings of facts, there is a joint committee on taxation, House and Senate, and we have the right and they have the right to see any returns. We would file a copy with them, and then make the copy public. Now the thought is that if a business knew that the Treasury Department was going to make an audit and then make it public; rather than have the stigma, the chances are nine out of ten that they'd come in and ask for renegotiation of the contract.

MR. NELSON: Well, they are doing that now, of course, in a large number. Are you familiar with what has been done in the War Department on this subject?

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H.M.JR: Only in a small way.

MR. NELSON: There is a committee over there now that is made up of five or six interested parties, all of whom have something to contribute in the picture. And they are going over these contracts, taking the bigger ones first and renegotiating them, and, of course, the manufacturers have been for some time asking for renegotiations on many of these, because what has happened, Mr. Secretary, is that as this stuff gets into mass production, they can produce it so much cheaper than they originally thought they could. They learn to do it in fewer man hours, they get the mass production methods, and their profits go up tremendously. A concern like Continental Motors, their contract readjusted for the last six months over forty million dollars, a concern with three million capital savings. It would just be a national scandal, and still the company took it at the same price they had been doing it at before, but had learned how to make it cheaper.

H.M.JR: Well, Don, I say I am offering this as a suggestion.

MR. NELSON: I understand, sir.

H.M.JR: Because through the Treasury, if you people think it over - I am not trying to rush you or anything - we would be willing to go up and see George and Doughton and McKellar, and try, if you wanted us to do this, to swing the thing over into the taxing power committees.

ADMIRAL LAND: I'd like to say right here now I don't have to think it over. This is exactly the line that the Maritime Commission wants to follow, and it has already been suggested. We think it is not only the simplest and surest way of accomplishing it, but that your agency, despite the fact it is a dirty trick to wish it on you, and so forth, can do a better job than any other department of the Government. Now, Mr. Anderson studied the thing very carefully, has been to all these conferences,

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spent the last part of this week with the War and Navy Departments - General Carter, was it, over with your show, Bob? While I won't say that they go along with this, our conclusions are very definitely that you can't set a fixed percentage price and put it on all the contracts existing in the United States. You can put a ceiling, but you can't make it applicable and do justice to the people without interfering with production, so that again that leads up to the other angle. If we need your assistance with somebody we think is crooked, and so on, as you say, we would come and get it in advance, pre-audit. So you don't have to wait for the Maritime, because we are convinced that that is the proper way of proceeding.

MR. PAUL: Of course, in the public mind the salary aspect has this dramatic appeal.

H.M.JR: From the business man's standpoint I should think the less auditors from the Government he would have crawling around through his books, the better he is pleased.

MR. NELSON: That has a great advantage, and the ones they are accustomed to.

H.M.JR: I am not going to plead for this, because we are perfectly happy to go along as we are, but I am worried. If you do this thing, the impact it might have on the manufacturer, this separate profits bill on each contract, which won't accomplish what Congress wants, will just be an embarrassment to the manufacturer, and in that way might impede production.

ADMIRAL LAND: Not only might, but will.

MR. NELSON: It will, definitely, no doubt about it.

MR. PAUL: Even a definite limitation on the year's business, without applying to particular contracts, might impede the war effort.

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ADMIRAL LAND: All you have to do is put up a doubt in the man's mind, no matter what the thing is; they are all worrying about the thing now.

H.M.JR: Senator George and Bob Doughton will fight to keep it in their committee, and keep it - they both feel that way. What do you think, Bob?

MR. PATTERSON: Well, there is no doubt of the fact that there are abuses right now, caused mainly by two things: A contractor, taking a new item to produce for the War Department, figured out his probable costs and then he figured out a great many contingencies; some of those contingencies weren't in his favor, so he is left with an abnormal margin of profit. And the second thing is the one that Don mentioned, which is that as he took a small order he didn't make much on this; but when he preserved the same unit cost in large orders, he found a great many ways of saving man hours, and the execution of the large orders resulted in a good deal of profits staying with him, far more than he ought to have. A good many contractors recognized that themselves, but they didn't know what to do about it. They thought perhaps the tide would turn against them on wages, or something like that, and so they just let it ride along. We have got the abuses there. Congress proposes to control them by profit limitations.

The best way from our point of view of controlling them would be by the department policing their own contracts, bringing them down and relying upon the excess profits law to catch all cases we missed. We can't do it apart from the excess profits law. You can't for the reason that you have got all kinds of sub-sub-sub-contractors down the line, and it is an impossible task for any department, I don't care what it is, to police all of those jobs way down and have them reflected up at the top in any correct way on the cost the Government pays, so that for that the only possible cure is, as I see it, the excess profits tax.

MR. PAUL: Your point would be that it would not be fair to select certain contracts, which apparently were war contracts, and audit them, and leave untouched a great

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many material matters that would really be making war profits just as much as the prime contractor.

MR. PATTERSON: The question - of course, I have only discussed the thing in a very general way so far, but the question is more practical than that. We are faced with legislation in the form of a rider on the appropriations bill, the House saying six percent, and the Senate saying renegotiate, and the Secretary shall keep anything they deem excessive. That will not work well, even if they take the Senate version, because it leaves a contractor in complete doubt as to what his price is. He will be driven to demanding a cost-plus-fixed-fee contract, which is very bad, and which we deplore. But that will be the tendency if the bill that is passed by the Senate becomes law. The question is, how to prevent that, and how to get it so that the contracts are policed internally and the prices renegotiated, the profits reduced, and then the excess profits law tax taken.

MR. PAUL: Of course, you appreciate one difficulty - I don't know whether it is clear to some of you - any excess tax profit you have falling short of a hundred percent - if you have ninety percent, I have seen cases where the ten percent remaining is more than the man dreamed of making in 1939.

MR. NELSON: That is very true.

MR. PAUL: If he is making it on his own capital investment, that is one thing; but if he is borrowing the money from the Government and has no risk capital in there--

MR. NELSON: That is why I would like to see you do both things, tax law and get it administratively, too.

MR. PATTERSON: I would only count on the tax law to catch the cases that the departments missed. And you can't rely purely on the excess profits tax law without reexamination of the contracts.

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MR. PAUL: That is my point.

MR. PATTERSON: I agree with that. In fact, the excess profits tax law I view as a stop-gap.

MR. PAUL: I struck a case recently of a man that made one hundred twenty thousand in the pre-war period and he has now a thirty million dollar business, and his profits are six million; and if we take ninety percent of it, that leaves him six hundred thousand, which is five times what he made before the war. I dare say that isn't an untypical case.

(Mr. Forrestal entered the conference)

H.M.JR: This is the suggestion I am making. We are willing to put on this, if the four Departments ask us to, really want us to - we are willing wherever the Army or Navy, Maritime Commission, or Nelson feel that there is an exorbitant profit being made, that instead of waiting for fifteen months - normally we wouldn't get at the '41 books of a corporation for about fifteen months, but we are offering, if you people wanted us to do it - think it over - that we would go in and make what we call a pre-audit and a finding of facts which we send to you and to the Joint Committee on Taxation in the Senate and the House, and also be made public.

MR. PATTERSON: I don't grasp yet how that will meet the problem that is urgent today, which is to try to get that appropriation bill passed without any provision about excess profits.

H.M.JR: Well, I can explain it to you. As I say, I keep repeating this, because I am very sincere about it, because it is an awful responsibility, a headache. If you gentlemen after thinking it over feel, "Morgenthau, we'd like you to do it," I'd be willing to go up and ask for a meeting with George and Doughton and McKellar and Barkley and Rayburn and simply say that the Treasury is willing to do this, take the responsibility. Are you willing to leave it to the Committee on Taxation to handle the question of excessive profits and excessive

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salaries? I know in advance that George and Doughton want it that way.

ADMIRAL LAND: Would that mean they would drop both amendments? That, of course, is the ideal thing; that is what you argued for the other day.

H.M.JR: Yes.

ADMIRAL LAND: If you could possibly do it. If it is possible to do it, we think that ought to be done. That isn't the place to handle it on that appropriation bill - absolutely illogical.

H.M.JR: That is it, to kill the amendment and put it in a tax bill.

ADMIRAL LAND: We did our darnedest to steer the thing. Certainly political strategy, national, not Republican or Democratic, made them do what they did. Whether that was the only way out, I don't know.

H.M.JR: And I checked with the President, Jim, and he is all in the clear on this, and he would like something like this, whatever we agree on. He has got no commitments. I cleared with him.

MR. FORRESTAL: The implication would be, then, that the reference back to the War, Navy, or Production Board would be followed by their own individual action.

MR. NELSON: Renegotiation of some kind, or recapture.

H.M.JR: We would be used as an agency, as an audit agency, to make the audit. We are in the books, anyway. It is a question of doing it a year and a quarter in advance. Then if we find that certain companies are escaping, then it is up to George and Doughton to draft a bill and get them.

ADMIRAL LAND: And that is the proper place the bill should be drafted, in the committees and not a rider on an appropriation bill.

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MR. PAUL: In fact, in the House that has to be passed as a separate bill.

MR. PATTERSON: Do you believe that if that proposal were made to Barkley and McKellar - of course I know George and Doughton - I know their views - do you suppose that that would head off this legislation that is now in the conference committee?

(Mr. Marbury entered the conference.)

H.M.JR: As I say, if I am asked to do it by you people, and you back me up, somebody go up with me, I am willing to go up and make the effort.

MR. FORRESTAL: Hatch said the thing could have been beaten that way. Barkley said again on Friday that it was a lot less hysterical.

MR. PAUL: Perhaps if you couple with it salaries, that would help a lot.

MR. PATTERSON: Of course, I urged the Senate leaders not to put anything in the appropriation bill and take a chance on coming out of conference with nothing, in the appropriation bill, they'd take the Senate version rather than the House version. I was overruled; no one else agreed with me. Hall told me we had to take something passed in the Senate, then work out some kind of a compromise.

MR. LAND: You mean none of the Senators agreed with you, but the Government agencies all agreed with you, that is, we four.

MR. PATTERSON: They agreed with Senator McKellar as to what was likely to happen, I believe, because perhaps I didn't know as much about it as they did. I don't quite see how we are going to get out of the pickle we are in now with the appropriation bill in conference. The bill is passed by the House containing a square, strict provision on profit limitation, and the bill is passed by

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the Senate containing a vaguer provision on profit limitations. They will tell us, I am pretty sure, that that binds the conference to include something on profit limitation.

H.M.JR: The other thing that I had in mind, and I forgot, was that we are ready - for instance, if you people like the idea, we would take twelve companies that do business for the Army, twelve for the Navy, and twelve for the Maritime Commission, throw in enough auditors the next three or four days to see what their '41 profits were, and salaries, and tell these people we will come up there Monday. For instance, we will have the salaries of officials for '41, '40, and '39, their profits for '41, '40, and '39, and then apply the pending tax bill to the '41 profits and the salaries of the individual and show you what it does to these thirty-six companies. Now, we could do it. We could have something certainly by Monday morning, and tell them we will come up there, and we will lay this on the table, and you people decide whether this bill which is pending does the trick that you want it to do, or whether it doesn't, theoretically. We will lay it right on the table, and I am sure there isn't a president of a company that wouldn't help us, having it done on an annual basis rather than contract. Go see the president of the company. The trouble is, practically all of these companies have extensions of time. Practically none of them have filed their March 15 returns, so we would have to go in and ask for the help of the president of the company, or the comptroller, or the auditor.

I think by the end of the week we can have thirty-six companies, Army, Navy, and Maritime, you (Nelson) giving us the ones this morning that you think, so we won't lose any time. Throw enough people in there, and by the end of the week we could have it. I think--

MR. PATTERSON: I am afraid that might increase the demand for profit limitation rather than get rid of it.

MR. NELSON: I am, too.

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H.M.JR: It wouldn't look so good?

MR. NELSON: I don't think it would look good.

MR. FORRESTAL: Before you applied the taxes.

MR. PATTERSON: I am afraid it would land you with a six percent profit limitation law.

H.M.JR: You mean after you applied the pending bill, you apply those to '41 taxes, and it isn't going to look good?

MR. NELSON: That is my opinion, it won't.

MR. PAUL: You mean ten percent that we leave them, or the eleven percent is going to be so much, is that the point?

MR. FORRESTAL: Only in a few companies like planes, I think.

MR. NELSON: I say if you pick twelve representative companies, and you try to pick them, I am afraid they won't look good on '41 business.

ADMIRAL LAND: Salary basis - I know you are right about that.

H.M.JR: After they have paid the taxes, and after you apply the proposed bill to their '41 salaries?

MR. NELSON: Well, maybe after you apply the tax bill to their salaries, but no one ever does.

H.M.JR: That is the whole point. We will take the tax return of the president of any concern - we have his return - he has filed his return. We will take his '41, '40, and '39 salaries, then his net, then apply the pending tax bill to his '41 salary.

MR. PAUL: Mr. Secretary, why isn't that salary end of it a way out? You can satisfy the lions by throwing

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a few high salaries to them and put in the appropriation bill - don't care - a limitation on salaries, but keep out the profit limitation. Might be a damned good thing to have a limitation on salaries.

H.M.JR: You could freeze the salaries as of a certain date, too.

MR. PAUL: That would be a compromise.

MR. FORRESTAL: Your two hundred thousand on a salary - that is the fellow with about fifty-five thousand under the new schedule?

MR. PAUL: I don't remember the figure, but that is probably approximately correct, and, in addition, we can show this if you disallow the salary deduction to the company and then still tax the individual, we will probably get more with these high salaries than we would if they weren't paid.

MR. FORRESTAL: Show what is going to happen to Messrs. Jack and Heintz, who are busted, I should think, today.

H.M.JR: The point I'd like to see myself - in fact, I am going to do it anyway for my own information - I want to satisfy myself that the pending bill is going to do the trick.

MR. NELSON: Yes, from that standpoint I think it is fine. I meant from the standpoint of going down and promising this committee you would turn them over to them, I am afraid. That was all I meant.

H.M.JR: Don, it gets down to this, is our pending tax bill good enough to do the job?

MR. NELSON: From that standpoint, I think it is fine.

H.M.JR: That is what I would try to sell to them, that the pending bill will do the job, gentlemen, and will do

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it better than what you are suggesting now. Why not leave it to the Tax Committees, but I can't do it until I get the actual facts.

MR. PATTERSON: I think there is a fair chance that if the people in Congress were confident of prompt action on excess profits tax law that they'd drop the profit limitation. They think of it as being a thing that is going to take months and months - always do take months.

MR. SULLIVAN: Do you think that if the Secretary made such a suggestion to them and agreed to go ahead and have an audit on the '41 returns, apply the corporate and individual tax rates under the present Treasury proposal to those '41 profits, and bring them in and submit them to the House Ways and Means Committee for action - as a part of this tax bill, do you think that would appease the critics of the present system and the people who want the rider in the appropriations bill?

ADMIRAL LAND: I will answer that without knowing anything about it. It will appease the intelligentsia, it won't appease the rebel.

MR. PAUL: Will it appease them if you had a salary limitation, too?

MR. PATTERSON: Salary limitation would not be as bad as a profit limitation. Of course, there again you get into a thing where you are trying to cast things into a straight jacket. If you'd say, "No salary in excess of fifty thousand dollars shall be paid out of these monies," well, I suppose that the tendency to that would be for small fry who heretofore had been getting twenty thousand dollars would be to boost up to fifty thousand. It is bad in legislation.

MR. PAUL: But it isn't as bad as the other.

H.M. JR: The whole thing is, gentlemen, here is what the Treasury proposed legislation does to a company based on their '41 earnings. Here is what this rider does. Now, we at the Treasury think we can do a better job - we can get more money this way, and it is fairer.

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Now why not leave it to the Taxing Committees, give examples.

MR. PAUL: If we approached it from another angle, too, apart from the political angle, it might be a darned good thing to find out if ninety percent is a high enough tax.

MR. NELSON: I think your test sampling is fine. It is just in my mind as to whether that will eliminate this rider.

H.M.JR: I gather, Don - I may be wrong - that Congress is looking for an out on this thing.

ADMIRAL LAND: Sure

H.M.JR: And so far we have sat in the back seat and said nothing.

MR. NELSON: This fellow Case who introduced the amendment in the first place called me on the phone. Congressman Case said he was disappointed at the turn the thing took. He said he had introduced the thing primarily so that these contracts should be renegotiated. Then they told him on a point of order he couldn't do that, so then he had to put it on a profit limitation. He did it at the instance of an Army officer, who felt that it would be a good thing to have contracts renegotiated and have Congress renegotiate them, so he tells me.

MR. PAUL: Has he been court-martialed? (Laughter)

MR. NELSON: He wouldn't even tell who it was.

MR. FORRESTAL: Glad he mentioned the Army. I think what the Secretary of the Treasury says is true. They are looking for an out, and I think any reasonable out.

MR. PATTERSON: Is there any way of your rates on excess profits being accelerated, that is--

MR. PAUL: I think that would be very difficult, but, on the other hand, I think maybe--

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MR. PATTERSON: Those aren't the things they have the long hearings and long pieces of testimony about, are they? They are about other things in the bill.

MR. PAUL: That is true.

H.M.JR: You mean rushing the bill through?

MR. PAUL: Rushing that part of the bill through.

H.M.JR: We went to them, asked them whether they would rush the excise taxes through, and they said they wouldn't.

MR. PAUL: They don't want to establish any rates in one field until they have the whole bill planned. In other words, that is their attitude, and I think that would be very difficult.

H.M.JR: They are finishing the hearings this week in the House.

MR. PAUL: I don't think this is going to take as long as some people suppose.

MR. PATTERSON: How long do you think it will take?

MR. PAUL: Well, I think by the end of July it ought to be in, and maybe the middle of July.

MR. PATTERSON: Well, quite a ways off.

MR. PAUL: I know, but people say October, elections, and everything. It may pass the House by about the 10th of June, and the Senate I would have to allow a month.

MR. FORRESTAL: You would, I think, do harm with a six-percent bill that went through, and then was wiped out when your tax bill - the point is, these people have got to have a bone to throw to the dog; and if they agreed to have the tax bill cancelled, anything they pass now, if it were satisfactory to them--

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H.M.JR: You can answer that better than I can.

MR. FORRESTAL: ... they'd accept.

MR. PAUL: I think it is very difficult to get a tax bill off the books.

MR. SULLIVAN: You have something very dangerous there, because once the Congress puts this on the books, a popular measure, and these twenty-five members of the Ways and Means, all of whom come up for reelection this fall, have to accept the onus of taking this popular measure off the books; and that is quite a load for them to carry. Then you have got a lot to do after the committee has acted favorably on it.

MR. PATTERSON: If it passes, you will never get rid of it unless--

MR. SULLIVAN: You might after election, but certainly not before. I think the harm would be done before.

MR. NELSON: Does anybody know whether the conferees can throw both amendments out?

MR. PAUL: We were talking about that.

MR. SULLIVAN: I think they can do it by directing the Secretary of the Treasury to make this study and to bring in a report to the other committee.

MR. MARBURY: They are not committed to anything in the Senate except renegotiation of contracts. They can bring in something which merely relates to renegotiation of contracts, and that is in the parliamentary rules.

MR. NELSON: Why not see what comes out of the conference? Maybe the conference will accept the Senate amendment.

MR. SULLIVAN: Too late then.

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MR. MARBURY: They can knock a lot of stuff out of the Senate amendment. We have been working on something which takes all the poison out of what the Senate passed.

ADMIRAL LAND: Why not follow what you have been working on here, which would leave the thing in a fairly harmless state, that is, if I understand what Mr. Marbury and his gang have been doing here, the Senate amendment has been redrafted already, and you could hold on to the renegotiation and drop everything else, and then your procedure would still be effective and still be logical and proper. That is an out for the political aspect of the thing.

MR. MARBURY: As I understood it, we had prepared this thing, which is nothing in the world but a renegotiation clause. It takes everything else out of it; and as it stands, it couldn't possibly hurt a fly.

ADMIRAL LAND: That is right.

MR. PAUL: Do you have that power now to renegotiate?

MR. MARBURY: Not by law.

MR. PATTERSON: You have it morally.

ADMIRAL LAND: This may provide an out.

MR. PATTERSON: Still you morally have the power.

MR. MARBURY: As I understand it, the suggestion made to us was that the conferees would be glad to accept something like this, which gave us additional powers of obtaining information in addition to those in the War Powers Act, that is, powers to demand interim statements, and things of that sort, and the power to renegotiate, even though a contract contained no renegotiation clause; that with those two powers they would be glad to let it go at that, provided they could get something

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to show the public that this problem of possible limitation was being taken care of in the tax bill, and would be taken care of effectively.

MR. SULLIVAN: Don't you think that that directive to the Secretary should be included there; because if you go just as far as your proposed amendment, then I am afraid there would be a rider put on every bill that went through, and this thing would keep coming up unless there is some indication to the people and to the Congress that we are really going after this problem.

MR. MARBURY: What is the proposed directive to the Secretary?

MR. SULLIVAN: That he shall make pre-audits of '41 returns of companies that have contracts with the Army, Navy, and Maritime Commission, and after bringing the results of those audits to the attention of the Joint Tax Committee, will then make recommendations as a part of the present bill by means of handling this situation.

MR. MARBURY: I think their making pre-audits is good, but I feel as if you bring all that stuff in and it is just ammunition, like the way they do with this Las Vegas thing. It is just dynamite because it looks so horrible before the taxes are applied, and some demagogue, as it were, throws it around like chaff in the wind.

H.M.JR: That is the difference. We would only bring it to them showing after the people had paid the tax, or the proposed tax bill. I know, somebody said the present bill isn't severe enough, but the way to get these companies on an annual basis is through taxes.

MR. MARBURY: That is right, we can't reach sub-contractors.

H.M.JR: As I say, if the present legislation for corporations and individuals isn't severe enough, we have got plenty of time to change them.

- 21 -

MR. MARBURY: I think it is severe enough, but I am just wondering if you can confine your reports to Congress as to what the result would be after they paid their taxes, I think that might be different.

MR. PAUL: I think that would serve a very useful purpose.

MR. PATTERSON: You couldn't confine it to that. Of course, they would want to know the whole thing; they would want to know what the salary question was.

MR. SULLIVAN: Bob, we will certainly find cases in which our present proposal will take more from the corporations than this six percent limitation will.

MR. PAUL: Yes. You will find that in all cases where there isn't a high income credit or invested capital credit.

H.M.JR: Some of you people say what you want. I am not here as a salesman.

MR. PATTERSON: The question right now is whether, I take it, the Treasury should go into a pre-audit as opposed to the War Department, or some other agency.

H.M.JR: No, the thing that I am suggesting is, that is a suggestion that I go up there, and whoever goes along with us, and bring George and Doughton in on this picture, with McKellar and Cannon, and try to swing this thing out of the Appropriations Committee into the Tax Committee. I make a suggestion - well, that is not good enough for them, but if you will do this, then on that basis we are willing to swing it over to the Tax Committee and drop the thing. That is the thought.

MR. NELSON: I am all for swinging it over into the Tax Committee. I think the way to get at this thing is through taxation. Anything else certainly will hurt this procurement program, and I already see signs of it right now, taking these small business pools and so forth;

- 22 -

I had one yesterday that was awfully hard to find a way to even get them into this picture on any kind of a limitation profit like that. The only way to do it is to swing it into management fee, so all these things will swing into management fee or cost-plus-fixed fee. You can see that very clearly.

MR. PAUL: Then you will have added costs.

MR. PATTERSON: That is ruinous.

H.M.JR: Bob, you seem worried; think it over.

MR. NELSON: May we do that?

MR. FORRESTAL: Let's nail it down to what they are talking about. Now they are not suggesting, as I gather, opposing this step of the conference agreeing upon renegotiation. That is not your thought, is it, Henry?

H.M.JR: I am here offering the services of the Treasury to go up there and make this first suggestion, which will most likely not be acceptable, but the purpose being trying to get the amendment killed, swing it out of the Appropriations Committee into the Tax Committee.

MR. PAUL: That is not inconsistent with that renegotiation.

MR. MARBURY: That is my point.

MR. PATTERSON: I think that that might be effective, what you propose might be effective in trying to at least confine the legislation attached to this appropriation bill to the narrowest limits. Keep out the six-percent provision of the House; keep out the sliding scale that came out of the Senate Committee, but didn't pass the Senate; keep out, if possible, the provision that did pass the Senate giving the Secretary power to declare anything excessive that is going to be very disturbing to people because they don't know what price they are working for. That is apt to come out.

- 23 -

ADMIRAL LAND: That is the point, that this can be killed if the Secretary goes up there and offers his solution, and they won't accept that; then he gives them this bait of renegotiation, and then we will hope that that will stick and drop the rest. I am a hundred percent in agreement with that procedure.

MR. PATTERSON: We have got a provision now which doesn't modify the bill as it passed the Senate very much, which renders it quite innocuous; and after a great many words and clauses and paragraphs, boils down to renegotiate.

H.M.JR: Have you got any assurance, Bob, they will take it?

MR. PATTERSON: No.

H.M.JR: That is your trouble.

MR. PATTERSON: But I think that the policy you propose will help us get that over.

H.M.JR: Do you want to think it over for twenty-four hours?

MR. PAUL: I would like to impress one final thought there, that if these two things don't work, that you be prepared on the next step, which is perhaps some salary limitation; while I don't like that particularly, I think it is better than other alternatives.

ADMIRAL LAND: Why not leave that in the hands of the Secretary if we agree to go up there; and if he doesn't get away with his first thing - get away with his compromise--

MR. PATTERSON: I agree with Randolph Paul that the salary thing is the red flag to wave. It is more striking to the public to have a stenographer receiving forty thousand dollars per annum than it is that the company made fifty percent, or something like that.

- 24 -

MR. PAUL: Especially that one.

MR. MARBURY: May I say this? The House conferees have asked for a meeting tomorrow before they meet with the Senate conferees. They want to hear from the War Department.

MR. NELSON: Who are the House conferees?

MR. MARBURY: The whole Sub-Committee on Corporations.

MR. PATTERSON: Headed by Cannon.

MR. MARBURY: They have asked the War Department to go up there tomorrow and talk to them about this profit thing by itself.

H.M.JR: And Frank Knox is up there this morning at ten o'clock on this.

ADMIRAL LAND: He is on the Vinson Committee.

MR. MARBURY: This is the actual conferees.

ADMIRAL LAND: I spent two and a half hours there yesterday.

MR. PAUL: We have all been up there, I guess.

ADMIRAL LAND: I doubt if anybody was there as long as I was.

MR. NELSON: I was there two and a half hours.

ADMIRAL LAND: This is the Vinson-Smith Bill - nothing to do with this bill.

H.M.JR: What would you like, gentlemen?

MR. PATTERSON: I would like to think it over, as you say. Can't we have a meeting tomorrow?

- 25 -

H.M.JR: Same time?

MR. PATTERSON: Yes.

H.M.JR: Want to come back tomorrow morning at nine o'clock?

MR. SULLIVAN: May I suggest that if there is any chance of following your sampling pre-audits, these gentlemen should ask somebody to select the names of companies, because the time will be very short.

MR. PATTERSON: You can do it in ten minutes.

H.M.JR: Would you give me something this morning, Don?

MR. NELSON: Yes, I will see that you get it. I will get it from both the Army and Navy and Maritime. You want a representative of about twenty-four?

H.M.JR: I would like thirty-six.

MR. NELSON: I will give you thirty-six that are representative.

H.M.JR: Get it into Sullivan's hands by noon.

MR. NELSON: I will get it by noon.

April 14, 1942

My dear Mr. President:

I thought you would like to know that at my request Mr. Donald Nelson is furnishing me today with the names of 36 corporations having contracts with the Army, Navy or Maritime Commission.

All of the tax returns of these companies for the years 1939 and 1940 are now available. Normally we would not complete audits on the 1941 returns until about the middle of 1943. However, we propose to send Internal Revenue auditors into the home offices of these various businesses tomorrow and to make immediate audits on the 1941 returns.

We shall then apply to the 1941 profits of these 36 corporations the income and excess profits tax rates under the Treasury's pending proposal. We will then know definitely whether the Treasury's proposed legislation is adequate to take the profits out of war and whether it will limit the net salaries of individual officers to a reasonable degree or whether some other technique will be required.

Mr. Sullivan and Mr. Helvering assure me that I can have this information not later than Tuesday next.

Yours sincerely,

The President,

The White House.

111

Personally dictated by HM, Jr
as a rough draft and to give the men
his ideas.

(DRAFT)

April 14, 1942

My dear Mr. President:

I thought that you would like to know that I have requested Mr. Donald Nelson to furnish me today with the names of 36 corporations, 12 of which have contracts with the Army, Navy and Maritime Commission, respectively. Mr. Nelson has agreed to do this.

We propose to send Internal Revenue auditors into these various businesses and get their tax returns for 1939, 1940 and 1941, both on their annual profits and on the salaries and returns of the officers of these companies. Normally we would not audit the 1941 corporation returns until sometime in 1943.

We then propose to apply to the 1941 returns the Treasury's proposed tax bill and with this information at hand we will definitely know whether the Treasury's proposed legislation will take the profits out of war and will limit the net return to the individual officers on a reasonable basis.

~~Yours sincerely,~~

-2-

Mr. Sullivan and Mr. Helvering assure me that I can have this information not later than Tuesday next.

Yours sincerely,

The President,
The White House.

Treasury Department
Division of Tax Research 114

Date Apr. 14 194 2

Miss Chauncey

Miss Doyle

This is the material that was prepared for the President's press conference at 4:00 this afternoon. Mr. Blough took it to the Secretary at 2:45 this afternoon and then he (Mr. Blough) and Mr. Kuhn took it to the White House.

Mr. Blough thought you would want copies for your file.

EVILS OF THE SALES TAX

- A. The sales tax violates the principle of ability to pay. It falls more heavily on the poor; it is, in fact, a "spare-the-rich" tax. A sales tax taking 10 percent of income at the \$500 level would take 6 percent at \$2,500 and 3 percent above \$10,000. It is bad economics to increase the tax load on people who have all they can do to feed and clothe themselves and their families. A sales tax would reduce their productive efficiency and might require Federal relief for them.
- B. A sales tax is not required to withdraw purchasing power.
1. Although about 45 percent of the national income goes to those who do not now pay income tax, the very low incomes are not getting the bulk of the income increases. The \$15 billion increase in national income expected for 1942 will go very largely to persons subject to income tax in 1942. (Based on C.F.A. figures.)
 2. Lower incomes are already being reached; persons in lower income groups are already paying a bigger share of their incomes in Federal, State and local taxes than are persons just above the income tax exemption level.
 3. Lower incomes will be further reached through:
 - (a) The \$2 billion increase in social security taxes.
 - (b) the \$1,300 million proposed excise taxes, and
 - (c) the voluntary payroll deduction savings program.
 4. Low income groups spend more of their money on foods and other relatively plentiful goods and less on durable goods and other scarce goods that compete with war production.
- C. The immediate effect of the sales tax would be to increase the cost of living. It would have the same kind of effect on low incomes as inflation.
1. It would stimulate the wage earner's demands for wage increases which by increasing costs would result in higher prices.
 2. It would add to farm prices under the parity provisions.

KH:dsd
4/14/42

FILE COPY

April 14, 1942

Dear Walter:

In accordance with the request in your letter of April 10, 1942 for certain information relating to the corporation income and excess profits tax, I am enclosing two exhibits.

The first is a special tabulation from excess profits tax returns for 1940, filed through December 31, 1941 which shows that the excess profits credit claimed by corporations taxable under the excess profits tax amounted to \$2,074 million. Corresponding data for the corporations not taxable under the excess profits tax are not available, except for the larger corporations. The corporations with normal tax net income of \$100,000 or over and excess profits credit of \$250,000 or over reported an excess profits credit of \$5,546 million.

The second exhibit is in answer to your questions 2, 3 and 4.

Sincerely yours,

[Signature]

Honorable Walter F. George
United States Senate

Enclosures

LS:fd
4/14/42

*Phoe file 2 m.c.
File & Thompson*

By Messengers *Brown*

9:05

4/18/42

Exhibit 2

Information on estimated corporation net income, calendar
year 1942

- | | |
|---|-------------------|
| (2) The estimated net income of all net income corporations, calendar year 1942, exclusive of intercorporate dividends and wholly tax-exempt interest, is | \$16,650 millions |
| (3) The amount of partially tax-exempt interest included in (2) is estimated at | \$ 300 millions |
| (4) The amount of income of corporations with net incomes of \$25,000 or less, included in (2) is estimated at | \$ 1,375 millions |

Exhibit F

Information on estimated corporation net income, calendar year 1942

- | | |
|---|-------------------|
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Exhibit 2**Information on estimated corporation net income, calendar year 1942**

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April 14, 1942
10:21 a.m.

HMJr: Hello.

Operator: Jesse Jones.

HMJr: Hello.

Jesse Jones: Hello.

HMJr: Jesse.

J: Yeah.

HMJr: How are you?

J: All right. How are you?

HMJr: Okay. Jesse, I've got word from Foley, from your lawyers and our lawyers, that this question of lending the silver....;

J: Yeah.

HMJr:is at a standstill because they say that you say that you and I aren't in agreement. I didn't know of any disagreement between us.

J: Well, I hadn't - when I got back from Cabinet I reported to the lawyers our discussion.

HMJr: Yeah.

J: And told them to look up and bring me the suggested procedure, and they haven't done it. They've been busy on other things, and I'll get at them right away and call you.

HMJr: Will you?

J: I certainly will.

HMJr: Jesse, Foley - hello.....

J: Yeah.

HMJr:tells me that this question of an indemnity

- 2 -

was all explained to your people before we went into it, and they said it was all right. They had no objections.

J: Well, I sent it to you. It was new to me; I hadn't seen it.

HMJr: Well, do you want to know the names of the people that sat in on it for you?

J: Yeah.

HMJr: Let me ask Foley. (Talks aside) Who.....
Sam Husbands is one.

J: Yeah.

HMJr: Klagsbrunn.

J: Yeah.

HMJr: And O'Hara.

J: Okay.

HMJr: And those boys knew all about it in advance, and raised no objections.

J: Yeah. Okay. Well, I'll look into it.

HMJr: Do you think you can do it today, Jesse?

J: I'll try, Henry. I've got a pretty full day, but I'll do the best I can.

HMJr: Because the Production boys say that time is of the essence.

J: I'll look right into it.

HMJr: I thank you.



THE SECRETARY OF COMMERCE
WASHINGTON

April 14, 1942

Dear Henry:

Both Mr. Husbands and Mr. Snyder tell me that they did not agree to the terms and conditions proposed to them, namely, that Defense Plant Corporation should agree to return to you the silver of the same weight and fineness as that delivered by you to Defense Plant Corporation.

They said to your representatives and to the meeting that they would submit the matter to the directors of Defense Plant Corporation, which they have since done.

They advise me that Defense Plant Corporation will agree to stand all expense of transporting the silver, fabricating it for use in the plants, and will protect it to the best of their ability, and, upon the request of the Secretary of the Treasury, return it.

I see no reason why Defense Plant Corporation should be required to do more than this.

Sincerely yours,

James Jones
Secretary of Commerce

The Honorable
The Secretary of the Treasury

April 14, 1942
10:26 a.m.

HMJr: Hello.

Stephen
Early: Yes, Henry. Good morning.

HMJr: Good morning.

E: How are you, sir?

HMJr: Fine. Steve, I don't know whether what John MacCormac wrote in the New York Times was any less truthful in what he said about me, than what he said about you. Did you read the story?

E: No, I haven't yet.

HMJr: Well, it's a front-page story on the Times.

E: Got me in it?

HMJr: Yeah.

E: What's it all about?

HMJr: Well, it starts off this way: "An over-all anti-inflationary program which will comprise higher taxes, broader price ceilings possibly re-enforced by rationing, and limitation of profits, probably stabilization of wage levels, will be presented to Congress by President Roosevelt within the next two weeks. It will be outlined in a special message upon which the President is already at work, his secretary, Stephen Early, intimated today."

E: Why, I said no such thing.

HMJr: And.....

E: They tried to make me say that he was writing a message, and I wouldn't. I said he was doing a lot of spade work in line with his discussion at the last press conference.

HMJr: That what the Tribune reported you as saying.

- 2 -

E: Well, that's what I did say.

HMJr: And then they go on and say that I was up at the farm over the week-end, and I was working on how to raise five billion more new taxes.

E: (Laughs)

HMJr: And so I thought that we here would point out his errors as far as we're concerned, and you might want to do the same for yourself.

E: Well, I certainly will. Thanks, Henry. I haven't gotten to the Times yet.

HMJr: Well, it's - the fellow's done it before, and he just draws on his imagination and he doesn't seem to care about the truth at all.

E: That's the New York Times, is it?

HMJr: The New York Times, John MacCormac.

E: John MacCormac.

HMJr: It's on the front page.

E: Yeah. I'll catch it.

HMJr: Righto.

E: All right, sir. Thank you, Henry.

HMJr: Thank you.

E: Good-bye.

The New York Times.

APR 14 1942

PRESIDENT DRAFTS INFLATION CLAMP ON WIDE FRONTS

Special Message Due in Two Weeks Comprises Tax Rise, Price, Profit and Wage Action

TREASURY'S PLAN SHAPING

It Calls for 5 Billion More Revenue—Senate Hears Pleas for Over-All Ceiling Now

By JOHN MacCORMAC
Special to The New York Times.

WASHINGTON, April 13—An over-all anti-inflationary program, which will comprise higher taxes, a broader price ceiling, possibly reinforced by rationing, limitation of profits and probably stabilization of wage levels, will be presented to Congress by President Roosevelt within the next two weeks.

It will be outlined in a special message, upon which the President is already at work, his secretary, Stephen Early, intimated today, saying that appointments were being restricted to permit "much spade work along the lines that he gave you at his recent press conference."

Secretary Morgenthau was at work over the week-end on the Treasury's part in the program, said to include increasing its tax proposal by \$5,000,000,000 to a new total of \$12,000,000,000.

Heavy Tax Load for 1943

This would mean that the American people would be expected to pay \$20,000,000,000 of taxes in the calendar year 1943. But it is pointed out that war expenditures in the 1942-43 fiscal year will be \$75,000,000,000 and total Federal expenditures about \$85,000,000,000.

This tremendous injection of government money into the national economy, it is argued, must be balanced by a tax program which will take at least a third of it out again.

To get the additional five billions in taxes Treasury circles now seem to be resigned to the prospect either of a general sales tax or a lowering of individual income tax exemptions.

Being considered is the possibility of distinguishing between the taxpayer who has made less rather than more money because of the war and is merely trying to pay off past debts and the taxpayer who has benefited from the war and must be prevented from incurring new ones.

Ceiling Action Asked in Senate

Secretary Morgenthau is said still to feel that the most important single anti-inflationary measure would be an overall price ceiling. A start on this was demanded in the Senate today by Senator Clark of Missouri, who denounced a sales tax as inflationary.

Urging that the President submit his anti-inflation program with all possible speed, he said that the Office of Price Administration should meanwhile use its powers "to stop the effort to beat the Administration's program before it comes to Congress."

At a Washington department store on Saturday, he said, he found that prices had jumped 30 per cent in a few days. Cotton quilts which had been \$4.50 a pair on Friday were \$6.75 on Saturday. A woman found that shoes had ris-

en 50 cents a pair between morning and afternoon. To defeat such "chiseling," he Senator said, price ceilings should be made retroactive.

Senators Connally of Texas, Reed of Kansas and Vanderberg of Michigan agreed on an overall price ceiling.

Senator Vandenberg called for "all-out price control on a national basis along the general lines of the Baruch plan."

Senator Thomas of Oklahoma, while favoring price freezing, denied that the country was already in the upward spiral of inflation. The dollar, according to Labor Bureau statistics, was still worth \$1.621, he said, and added that in a few months it would be "down to a dollar."

After a conference here the Retailers' National Council declared tonight that retailers did not oppose price ceilings if all other costs including rents, wages, interest and other business costs were likewise frozen.

The council said that proposed ceilings freezing the prices of goods should be applied fairly and recommended that the Office of Price Administration allow a reasonable time lag between wholesale and retail prices.

Retailers, the council said, generally have cooperated with the OPA in efforts to keep prices down and would now lose heavily unless adequate provision were made to permit the re-establishment of the proper relationship between cost and selling prices.

The council's membership includes several hundred thousand merchants in all parts of the country.

The New York Times.

APR 14 1942

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 14, 1942.

TO Mrs. Klotz
FROM Secretary Morgenthau

I want Lawrence Houghteling to be present at a meeting with General Electric and General Motors today. Please arrange it. Also, George Buffington.

Done

April 14, 1942
10:30 a.m.

DEFENSE SAVINGS BONDS

Present:

Mr. Graves
Mr. Buffington
Mr. Houghteling
Mr. Gamble
Mr. Peare
Mr. Neal

H.M.JR: Which of you men are responsible for the very good job that you did up at G.E.?

MR. PEARE: Mr. Neal.

MR. NEAL: Mr. Peare, and possibly about a hundred other people, I'd say, at least.

MR. PEARE: I am manager of the department, and Fred did the job. That is the total, Mr. Secretary. You take your choice, and we will be glad to answer questions.

H.M.JR: What is your department?

MR. PEARE: I am manager of the Publicity, Public Relations, and Advertising.

H.M.JR: Public Relations and Advertising. You?

MR. NEAL: I work for Mr. Peare, Employee Relations.

MR. PEARE: We have an Employee Relations, general promotional point of view, within that Public Relations Department. We have a group working on employee relations, too.

H.M.JR: An employee who works with--

MR. PEARE: Employee Relations Section within my department.

H.M.JR: You have employees who work with you; I mean, how do you reach the employees?

MR. PEARE: Through various media, radio, newspapers.

H.M.JR: That isn't what I mean. Is General Electric unionized?

MR. PEARE: Yes, sir, CIO.

H.M.JR: How do you work through CIO, for instance, as far as the job like this is concerned?

MR. PEARE: Some places there is great discussion with the local union groups; and in other places, two in particular, we are carrying on a plan right now that works directly with the employee-management production committees, rather than with the management of the works. That depends on what works we are working in. Some have a different set-up than others.

MR. NEAL: Some of us, of course, have both the AFL and the CIO unions.

MR. PEARE: The AFL is such a minority that--

H.M.JR: Well, I am groping; I know very little about this. You start on a program, you decide you want to put it over in a week. How do you do it, from the management down, and how much do you get the cooperation from the unions? That is what I am groping for.

MR. PEARE: Fine cooperation. In a case like that, I think there is very little difference between the management and the unions. We are all employees of the General Electric Company, and we sit down and talk about it, and it works. We don't formally reach -

- 3 -

in most cases we don't formally go to the unions and discuss it with them. The union members sit down with members of the management of the company. It is just discussed in informal fashion.

H.M.JR: Well, I don't know whether in General Electric, but in the automobile industry we have what they call shop stewards.

MR. PEARE: Yes.

H.M.JR: I don't know whether you have those or not.

MR. PEARE: Yes, we do.

H.M.JR: And it is the job of the shop steward to explain anything to do.

MR. PEARE: That is what the unions say.

H.M.JR: Well, I mean, I wondered how much, for instance, you use shop stewards.

MR. PEARE: I can't answer that question because we use them in many places; in other places we don't. Some places the foreman will take care of it; other places the shop steward will take care of it. There is a twilight zone in there, Mr. Secretary, that really doesn't lend itself to definition.

H.M.JR: Let me put it to you another way. General Motors' people are coming in this afternoon. I don't know who they are, but they are coming in. They are very anxious to go forward on this pay-roll deduction, and we are hoping, not only General Motors - better confine it to General Motors - they'd be CIO also?

MR. PEARE: Yes.

H.M.JR: How can we get the benefit of what you people have done and make it available to General Motors?

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MR. PEARE: We will be delighted to tell them anything they want to know.

H.M.JR: I mean, we have got, roughly, fifty thousand corporations who have the pay-roll deduction plan in. Now, we haven't had an announcement of a real drive trying to raise this to ten percent; we are not ready yet. Now, when we do it - so far very few, if any, of the corporations have the men making a ten percent deduction voluntarily. Now, what I wanted to find out is how much would General Electric help the Treasury to teach this technique which you people worked out successfully to other corporations who want that information.

MR. PEARE: We will be glad to help you any way that we can. To us it doesn't seem particularly unique or different because we have been doing things like this for a long time, so I don't know just what it will involve; but we will be glad to sit down and talk with them about it and tell the story or we will be glad to put it on paper and you can circularize it.

H.M.JR: Let me explain what I have in mind. Philadelphia Evening Bulletin worked out a very elaborate, successful plan whereby they are selling stamps, and they did it, they made a success of it; so we wanted to interest other newspapers, so the circulation manager of that paper on down helped us to sell it successfully, using their technique, their literature, to some eight hundred other newspapers. We used the Philadelphia Bulletin technique of it. Now, you fellows have made the outstanding success, so far as I know, in this field, and we'd like to get you to help us from here.

MR. GRAVES: Of course that Bulletin thing, Mr. Secretary, was organized through the publishers associations. The publishers associations did all of that job, using--

H.M.JR: We did use Mr.--

MR. GRAVES: Mr. Stodgill organized that in the

publishers associations.

H.M.JR: But he first did it, worked it out, and then he taught these people how to do it.

To get down - I mean, it seems very easy to you, but to other people who haven't been able to make a go of it, it isn't so easy.

MR. PEARE: I realize that. My job in the company is the dissemination of information. I am just, as you told Mr. Graves, turning over in my mind how it might best be done without completely taking our whole organization to do it, which has been pretty well robbed already, you know, by various important tasks. Is there anything - can you get the assistance of trade associations?

H.M.JR: Yes.

MR. PEARE: Take, for instance, the Chamber of Commerce?

H.M.JR: Yes.

MR. PEARE: Or some group like that?

MR. GRAVES: National Association of Manufacturers, for instance.

MR. PEARE: Your heavy manufacturers, I presume, would be in that. The smaller business men would be more interested in the Chamber.

MR. GRAVES: That is right. Those two organizations probably would reach pretty nearly everybody.

MR. PEARE: Those two pretty well cover your corporations and the small, unincorporated business men. We could tell our whole story to a group of men appointed by those two organizations, and I think give them enough to get them into effective action fairly quickly. That would be my suggestion.

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H.M.JR: Wouldn't you really almost have to hold regional schools of the top people in each corporation?

MR. PEARE: They could do that.

H.M.JR: They could do it?

MR. PEARE: Yes, the associations. That is the tie-in that I am trying to find, because we don't have the man power to do it, Mr. Secretary. We handle this with a very few people.

H.M.JR: You do?

MR. PEARE: Oh, yes. Of course our organization in each outlying unit is pretty well set up, and our home office organization goes to them with the general details, the objective, how we plan to do it, and they carry it out. Now, to undertake a program of education on a thing like this is really an enormous task. So it would have to be one of these large, over-all groups, it seems to me, that would carry this thing through.

H.M.JR: I am reasonably sure that both the Chamber and NAM would appoint a special committee just on pay-roll deduction.

MR. PEARE: We can help them a lot. We could bring them to Schenectady and go into it with them over a period of two or three days, or we could meet them in New York, wherever they saw fit, and I believe do a fine job.

H.M.JR: One thing that wasn't quite clear in reading the circular which you have just gotten out, whether the pay-roll deductions of G.E. are all new or whether you are giving credit for what they already had in your old system of pensions. In other words, how much are your people deducting each week now from their pay roll? I couldn't quite get that. The two things seemed mixed up a bit.

MR. PEARE: All the figures were the new bond commitments. They had nothing whatsoever to do with our old pension.

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MR. NEAL: Nothing at all, completely new.

H.M.JR: As you read that, it isn't clear in the circular.

MR. NEAL: What happened was this; We had a system for several years whereby the employees could purchase employee securities, corporation bonds, as we called them, and the company, I believe, holds the common stock in that corporation and the employees buy the bonds. That was done, of course, to prevent fluctuation in the market value, so the employees would have the stable security to buy. As I remember, about one-third of the employees from time to time have purchased those employee bonds; but of course the amount was nothing comparable to the totals we have on the bond sales. The plan was first put in last May. There was no concentrated drive at that time. Of course the plan was announced in the employee papers, and what not, but there was no concerted drive. One-third of our employees who were purchasing bonds continued to make their subscriptions and buy employee bonds, and so for that reason there were very few Government bonds purchased.

Now, those subscriptions all ended in December, because these bonds we were issuing were issued on a one-year basis; in other words, a series of 1939 and a series of 1940, and so on, and so in December that employee bond payment was all cleared up. For that reason we felt it was time to then put on a drive for the Government bonds.

H.M.JR: What they are doing now, weekly or monthly figures, are in all war bonds and not in your bonds?

MR. NEAL: Yes, we entirely eliminated the employee bonds, as far as any new issue was concerned, last May.

MR. PEARE: As soon as your program was announced, we discontinued this other plan, which was only a savings plan, and it is there if you want to use it. It is limited to five hundred dollars a year, no promotion back of it, or anything like that. We made them no longer available and went wholeheartedly into your security.

H.M.JR: When you say you handle publicity, that is both inside the company and outside?

MR. PEARE: Yes, sir.

H.M.JR: I mean, all the advertising of the products, your general advertising?

MR. PEARE: Yes, sir.

H.M.JR: Then the stuff within the company, too?

MR. PEARE: Yes, sir.

H.M.JR: Which agency do you use?

MR. PEARE: We use four or five different agencies. Matson, Incorporated, has most of our accounts.

H.M.JR: For your over-all publicity?

MR. PEARE: Yes, sir.

H.M.JR: Let me get this - excuse my ignorance.

MR. PEARE: Go right ahead.

H.M.JR: I am just trying to find out.

MR. PEARE: It isn't your ignorance but my poor explaining, probably.

H.M.JR: No, no, I am just starting. Let's just say for a minute that we get the NAM and the Chamber of Commerce to say, "We each appoint a committee, and we will work together so we don't overlap, and NAM take certain ones and we will take certain others. There won't be duplications. Now, in anything we can do we have got to bring the unions in.

MR. PEARE: Sure, should bring them in.

H.M.JR: Now, just use your imagination - as a publicity man you are supposed to have ideas - we'd like to make the unions feel that they are in anything from

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the start because they have been awfully good with us on this thing, very enthusiastic. Do you suppose we could have a committee composed of the Chamber of Commerce, the NAM, and whatever union involved?

MR. PEARE: I'd say that would be largely a local problem.

H.M.JR: You see, I had at this table for the first time in five years the representatives of CIO and AFL and the Chamber of Commerce and the NAM. All six of us all sat down there to broadcast together about three or four months ago, so we all did do it together at once over the air, and it was very good - and the railroad brotherhoods?

MR. GRAVES: The brotherhoods.

H.M.JR: We all did it together. Just think a minute about the union angle of it, just from your own experience.

MR. PEARE: Well, from our own experience, as far as I know, the union angle hasn't come into it at all, largely, I presume, because the deduction method of purchasing has been made available by the company to its employees for at least twenty-five years, and our problem in connection with new defense or savings bonds consisted almost entirely of changing our plan from the collection of funds to the deduction of funds for one security over to another security and adding a promotion plan for the new media of investment which hadn't existed for the old. So I couldn't make a contribution on that, Mr. Secretary, I don't know enough about it. I should imagine that the relationship existing between the management of a company and its union representatives, and then to break that down farther, purely local situations, that might exist within that same company in one works or city or another, would be different in many cases.

H.M.JR: Well, these committees that Mr. Nelson has set up - are you familiar with those?

MR. PEARE: I know something about them, yes.

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H.M.JR: You couldn't use that same framework maybe?

MR. PEARE: I should say only for promotion purposes.

H.M.JR: Only for promotion?

MR. PEARE: That would be my guess, and it isn't a very good guess. It is of little value to you.

H.M.JR: I wonder if we could find out from Nelson - what is his name - I will tell you who is doing it, the man who is down here as Nelson's assistant.

MR. BUFFINGTON: Sidney Weinberg.

H.M.JR: Sidney Weinberg, I understand, is handling the thing for Nelson. I am so informed.

MR. BUFFINGTON: That is what I understand. I heard that in Boston.

H.M.JR: We might find out they are doing. You don't want any more committees.

MR. PEARE: There are enough.

H.M.JR: So if they have already got good committees I'd love to use somebody else's committees.

MR. PEARE: It would occur to me in that connection that these committees are formed largely as a clearing house for ideas to improve production. Well, the facilities set up to do a thing like that, it seems to me, would have little to offer toward the collection of money or towards establishing a routine for the collection of money that you are seeking. Now, they could give it a boost, an emotional boost, a patriotic appeal, and that sort of thing; but I don't see how they could be used as now constituted for your purpose. That is a curbstone opinion.

MR. HOUGHTLING: In the railroad pay-roll plans we have been very successful in setting up joint committees. We have asked the president of the railroad to appoint one of his officers, usually the treasurer or the chief fiscal officer, as chairman of the committee, railroad

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labor being very fully organized. They have a general chairman for each one of the railroad crafts, and he sits on the committee with the treasurer and one or two other people appointed by the president of the railroad, and it is the general chairman, labor chairman's job, to get out and promote the participation in the pay-roll savings plan, not only as to getting all of the people to take part, but also in getting the percentage up. We have got to do a ten percent average job of pay-roll allotment if we are going to put this thing over.

Now, the best people, we think, to tell the union members what they ought to do is their own union representatives rather than the Government or the management.

MR. PEARE: I find no fault with it.

MR. HOUGHTELING: For instance, I have a circular gotten out - I don't believe you have seen this yet, Mr. Secretary - by the United Automobile Workers, and United Automobile Workers CIO executive committee is recommending to all UAW war workers that they put as high as twenty percent of their weekly pay into Defense Bonds.

H.M. JR: Twenty percent?

MR. HOUGHTELING: Twenty percent. They are going ahead of what we are asking, and this was put out without our knowing it or without consulting us. They have the combined objective of helping to finance the war, helping to fight inflation by drawing off the excess pay, and also building a cushion against the adjustment at the end of the war, which will be good for the union and good for its members. It seems to us that they are the people who can go in, as Dave Dubinsky's ladies garment workers are doing and saying, "We want two weeks' pay this first half of 1942." for that reason we feel that the better relationship we can get by joint committees the more effective it will be, and that one thing of bringing up the percentage of the pay that is allotted. You have the Electrical, Radio and Machine Workers of the CIO, haven't you?

MR. PEARE: That is right, sir.

MR. HOUGHTELING: Both factions in that union are very

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much interested in this. Mr. Carey, who was defeated for the presidency last fall, is secretary of the CIO, he is very keen on this, and in fact the new president, Emspak, has also committed himself very thoroughly to this, so that the union as a body is committed to it.

MR. PEARE: Fitzgerald is the new president.

MR. HOUGHTELING: Not Emspak?

H.M.JR: Could I interrupt you a minute. Harold, do you think we would be moving too fast, in order to make the best use of these gentlemen's time, if you tried to see now whether the president of the Chamber of Commerce and NAM are in town or get them, wherever they are, and tell them you are forming a management committee of manufacturers, businesses and unions, to advise with me to help me put over this new program, this intensified program. Ask them whether they would be willing to cooperate with us, dividing up the country, and that these gentlemen are here today and could talk with somebody from NAM, U.S. Chamber of Commerce, telling them what they have done, and if we will not be going too far, that they would be ready to put at the disposal of this committee the technique which the General Electric has used.

MR. PEARE: That is right.

MR. GRAVES: I doubt if either of these gentlemen are here. Mr. Hawkes is in New Jersey; he is the president of the United States Chamber, and the head of NAM is in Pittsburgh, as I recall - I don't remember his name.

MR. HOUGHTELING: Witherow.

H.M.JR: You might get him on the phone.

MR. HOUGHTELING: He is in Pittsburgh.

H.M.JR: How long are you men here for?

MR. PEARE: I will be here until tomorrow some time.

H.M.JR: That goes for you, also?

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MR. NEAL: I have a reservation on the six o'clock, but I can cancel it.

MR. PEARE: We will be at your disposal whenever you want us.

H.M.JR: I think we ought to - if you agree, Harold, I think we ought to contact these fellows right away, see whether they would be willing. Do you say yes or no?

MR. GRAVES: I am thinking. Answering your question, my own notion would be that this would be apt to be more effective if you would get these two, plus Green and Murray and Lehman all at once.

MR. PEARE: I think you will have to because this is a conditioning process with our employees, and if you get NAM in it - and this is another curbstone opinion - if you get NAM in it, you will have to get CIO and AFL.

MR. GRAVES: That is right, and I think they ought to be gotten all at once, and a sort of proposition made to them all at the same time.

H.M.JR: Why don't you go in your room, Harold, and talk a little bit further? I have got to stop now. Then you give them an assignment to start off.

MR. HOUGHTLING: I haven't seen Green yet; I talked to Murray.

H.M.JR: Don't you want to talk a little bit further, and then we can see what General Motors has in mind, and by tonight we can decide which way we want to go; but I want to keep moving.

MR. PEARE: All right, we will help you, sir.

April 14, 1942
11:25 a.m.

HMJr: Hello.

Operator: Miss Tully.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Grace
Tully: Good morning, Mr. Secretary. How are you?

HMJr: Fine.

T: That's good.

HMJr: I'd like to see the President at his convenience, either Wednesday or Thursday morning. Which do you think would be better?

T: Well, I don't know offhand. I can't tell you. I don't know whether he's made any appointments for either or both, Mr. Secretary. I'll have to check it.

HMJr: Right. Now, I don't know how I do this - when I spoke to Sam, Saturday, he volunteered that he'd keep me furnished with drafts of that speech as they went along.

T: Uh huh.

HMJr: Now, who's the correct person to ask for that?

T: Well, I should think - Sam's working on it in New York, probably.

HMJr: I see.

T: You see, sir, unless he'd mail it down, we'd have no chance of getting it until he arrives probably Wednesday or Thursday.

HMJr: Well, then, I'll get in touch with him.

- 2 -

T: Yes. I think if you get in touch with him in New York and have him mail you a copy.

HMJr: I see. Well, then, I'll do it that way.

T: He didn't leave any here that I know of.

HMJr: He didn't.

T: No.

HMJr: But - and then you'll let me know.

T: Yes, I will.

HMJr: I thank you.

T: All right, Mr. Secretary. Good-bye.

HMJr: Good-bye.

April 14, 1942
11:28 a.m.

HMJr: Hello.

Operator: I have Mr. Sproul.

HMJr: All right.

Operator: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Dan Bell said, Allan, you wanted me to call you.

S: Yes, I tried to reach you yesterday and you were busy.....

HMJr: Yeah, I.....

S:and the darned things are boiling down there.

HMJr: I was out of town.

S: I see. Following up my conversation with you last week.....

HMJr: Don't believe what you read in today's New York Times. It's a pure fabrication.

S: It is?

HMJr: Pure.

S: Well, I've gotten in the habit of not believing all I read in the papers.

HMJr: The Wall Street Journal has as near accurate story as anybody.

S: That's the best story, is it?

HMJr: Yeah.

S: Well, I'll take a look at that.

- 2 -

- HMJr: Yesh, because the New York Times is pure yellow journalism.
- S: Every once in awhile they go off the deep end that way.
- HMJr: Yesh, I don't understand it.
- S: Neither do I, because that's not their general policy.
- HMJr: No.
- S: Well, what I wanted to talk to you about, following up my conversation with you last week, we had another meeting of the New York City banks, and I told them of my conversation with you.
- HMJr: Good.
- S: They want to go right ahead and make good on their offer of cooperation in any campaign of distribution which may become necessary.
- HMJr: Good.
- S: Now that will mean the organization of the banking community, and the organization in New York City, it seems to us, ought to be part of a district-wide and nation-wide organization for the same purpose; and it's their view and mine that this can best be done as far as the banks are concerned by Federal Reserve Districts, and they want to go to work with me setting it up in the Second Federal Reserve District, but we want to be sure that you approve.
- HMJr: Oh, sure.
- S: Okay. I think the A.B.A. and the Reserve City Bankers will be getting a dose of the same sort of thing, and that probably this movement will take hold all over the country; and I think it's high time we did have the banks organized, for whatever develops, so they can lend a hand wherever it's necessary.

- 3 -

HMJr: Well, Burgess left here a few minutes ago with the vice president of A.B.A., and this Saturday they're launching first a national, then a state, and then get down - the same thing you're talking about.

S: Well, that would fit right together. Of course, I've talked with him up here about it.

HMJr: Then I take it that all these people that you're talking with are members of A.B.A.

S: Yes, they are.

HMJr: So then there won't be any conflict.

S: No, there'll be no conflict at all. In fact, the two things will go right along together.

HMJr: Swell.

S: Well, then we'll go ahead on that as far as this District's concerned.

HMJr: Fine. Good.

S: Now, the second thing, I told them what you said about your willingness to see them or even possibly, if it could be arranged and your circumstances would permit, to come up here.

HMJr: That's right.

S: Well, they would like very much if you could come up to New York at any time you can, for luncheon at the bank or for dinner, or whatever suits your convenience.

HMJr: I'm going to try to do it.

S: Well, I wish you'd let me know if and when you can, because they'd like it and appreciate it, I know, and they have so said.

HMJr: Good. Okay.

S: All right. I'll wait until I hear from you on

- 4 -

that, and meanwhile we'll go ahead with organizing the banks in this District.

HMJr: Thank you so much.

S: All right.

HMJr: Good-bye.

S: Good-bye.

FEDERAL RESERVE BANK
OF NEW YORK

April 14, 1942

Dear Secretary Morgenthau:

Enclosed is a copy of a letter which I have written, as a result of our telephone conversation this morning, to Mr. W. C. Potter, Chairman of the General Committee of the New York Money Market.

Yours faithfully,



Allan Sproul,
President.

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

Enc.

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WASHINGTON, D.C.

FEDERAL RESERVE BANK OF NEW YORK

April 14, 1942.

Mr. W. C. Potter, Chairman,
General Committee of the
New York Money Market,
c/o Guaranty Trust Company,
New York, N.Y.

Dear Mr. Potter:

I talked with Secretary Morgenthau by telephone this morning. I told him that we had had another meeting of the principal member banks in New York City last Friday, at which the results of my conversation with him, a week ago, had been reported to the group. I said that the group now wants to make good on its offer of cooperation in an aggressive campaign of distribution of government securities; that this will mean the organization of the New York City banks for the job, and that it seems to us that such an organization should be part of a nationwide organization developed for the same purpose. This, we believe, I told him, can best be accomplished by Federal Reserve Districts, centering the organization around the Federal Reserve Bank - the Fiscal Agent of the Treasury - in each district; and that we want to go ahead in the Second Federal Reserve District, but, before doing so, we want to be sure that he approves. He said that he does without hesitation or reservation.

I discussed briefly with the Secretary what is going forward in the American Bankers Association and the Reserve City Bankers Association, and said that we saw no conflict between what we are proposing to do and what these associations seem to have in mind; that, in fact, what we are doing is complementary - not conflicting.

We have the green light, therefore, and can go ahead with plans for organization in this district. I shall be ready at any time to meet and discuss such plans with the committee, which you have appointed to study the question, of organization of the banks of the district for the distribution of government securities.

I also told the Secretary how much the group would appreciate it if he could find the time to come to New York to meet with it, either at luncheon here at the bank, or at dinner, or at a meeting at some other convenient time. I am sure that he will do so if it is at all possible, and I am to await more definite word from him.

Yours faithfully,

ALLAN SPROUL

Allan Sproul,
President.

AS:R

April 14, 1942
11:40 a.m.

HMJr: Hello.

Operator: Lewis Douglas.

HMJr: Hello.

Lewis Douglas: Yes, Henry.

HMJr: Lew, how are you?

D: (Laughs) Nobody's poisoned me yet.

HMJr: Well, I hope they won't.

D: How are you, Henry?

HMJr: I'm all right. Lew, I was telling Bob Patterson this morning. We had our man up in Baltimore.....

D: Yes.

HMJr:where there are a lot of ships being loaded for Russia.

D: Yes.

HMJr: Baltimore now is almost as hectic as Philadelphia was three weeks ago.

D: Yes.

HMJr: I wish you'd take a look at it.

D: All right, sir.

HMJr: The great trouble is, everybody goes around as though it was a great secret; and no Government agency tells another anything.

D: I know. It's a - excuse me, Henry.

HMJr: Sure.

D: I'm going back to my mule-skinner's proclivities.

HMJr: That's all right.

- 2 -

D: Excuse me, sir.

HMJr: That's all right. Now, one other thing. I had our Treasury man go up to New York.

D: Yes.

HMJr: New York Harbor's in swell shape.

D: Yes.

HMJr: And I don't see why they can't put more of these ships into New York.

D: Neither do I, Henry. I never have seen why they couldn't.

HMJr: Now, they've got nine in Baltimore loading there now.....

D: Yes.

HMJr:and they've dumped those in on us over night.....

D: Yes.

HMJr:no notice. Our responsibility is to get the bottom cargo there.....

D: Yes.

HMJr:and we just don't know from one day to the next.

D: Yes.

HMJr: And the most we ever have is twenty-four hours' notice, which isn't enough to get - and then.....

D: It's terrible, Henry.

HMJr: And these ships - I've got this thing here - I won't mention any names - but - hello.

D: Yes.

HMJr: There's day after day that after the ship arrives -

- 3 -

I've got one ship here - now, let me just see, let me just see - she got in there on the twenty-seventh.....

D: Yes.

HMJr:and from the twenty-seventh until the seventh - well, they began to load her on the sixth.

D: She was idle - she was idle for ten days.

HMJr: Yeah.

D: Yeah.

HMJr: Yeah. Well, the name is "Hollywood", is the name of the vessel.

D: Yes.

HMJr: At Baltimore.

D: Yes.

HMJr: Well, that's terrible.

D: It's terrible, Henry. It makes the hair on the back of my neck stand out straight. I can tell you something else about that Baltimore situation some day, too.

HMJr: And if you want - as I say, will you take a look at it?

D: Yes, I will, Henry.

HMJr: And this man that I sent up to Baltimore and Philadelphia and New York says New York could handle, within reason, any number of these ships.

D: Certainly. Yes, I think she could. I think there is a shortage of lighterage, but she can certainly handle many more ships than she has.

HMJr: Well, I mean - and then they wouldn't jam

- 4 -

Philadelphia and Baltimore the way they have.

D: Exactly.

HMJr: Let me know what you do about it.

D: Yes, I will, Henry.

HMJr: Thank you.

D: All right.

HMJr: Thank you.

D: Good-bye.

April 14, 1942
3:13 p.m.

HMJr: Hello.

Operator: The Vice President is at the ball game. I have Mr. Perkins.

HMJr: Hello.

Operator: Go ahead.

HMJr: Milo.

Milo Perkins: Hello, Mr. Secretary.

HMJr: How are you?

P: Wonderful.

HMJr: You're wonderful?

P: Sure.

HMJr: (Laughs)

P: How are you?

HMJr: Well, I'm alive.

P: Good.

HMJr: Mr. Nash, the Minister of New Zealand, is sitting here with me.

P: Uh huh.

HMJr: He said they got twenty-five thousand bales of wool there waiting, sold to Boston, and they can't get it up here.

P: Uh huh.

HMJr: From what the Vice President told me the other day, things are coming more your way; and I wondered if you couldn't get in on this.

P: I certainly can.

- 2 -

HMJr: Will you?

P: I will right away. Now, I wonder if Mr. Nash - by the way, isn't he a wonderful person?

HMJr: Yes.

P: A wonderful person. I wonder if he could get me a note on that, and I'll get the thing in the machinery. It's probably partly working with Maritime Commission on it.

HMJr: Yes, they've been - he's been working with Maritime, but I thought he'd get better luck through you.

P: Well, the President signed this Order today.

HMJr: Good.

P: And if Mr. Nash will get me that note, I'll get it to our people working with Maritime and do everything I can to push on it.

HMJr: Is that Order going to be made public?

P: Yeah. I just sent Harry White a copy. I'll send you one if you'd like to see it.

HMJr: Send me one down, will you?

P: I'll get it to you right away, sir.

HMJr: And why don't you send one to Mr. Nash at his residence, so he knows why I'm doing business with you.

P: Fine. I'll do that, too.

HMJr: Right.

P: Thank you, sir.

HMJr: Hello. Milo.

P: Yeah.

HMJr: While we're on it, do you know how much is

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waiting in Australia?

P: No, sir.

HMJr: Could you find out?

P: That's part of what I'll have to find out.

HMJr: Will you?

P: Yeah. Now, that's going to be more difficult on account of the way we've run this import thing, and.....

HMJr: I know.

P:it's one of our jobs to get straight.

HMJr: Well, I tell you who knows an awful lot about it is Sir Frederick Phillips.

P: Uh huh. Good.

HMJr: See.

P: I'll run into that one, too.

HMJr: Will you?

P: Sure.

HMJr: Righto.

P: Thanks.

HMJr: Thank you.

P: Thank you very much.

April 14, 1942
3:20 p.m.

DEFENSE SAVINGS BONDS

Present:

Mr. Jerpe
Mr. Anderson
Mr. Buffington
Mr. Graves
Mr. Houghteling
Mr. Gamble
Mr. Iseby

MR. ISEBY: General Motors, Mr. Secretary, are putting on a grand drive in all their plants. The zero hour is next Thursday leading up to it.

H.M.JR: This week?

MR. ISEBY: For all their employees, yes. They have started on the eighth to have a teaser campaign in all their plants throughout the United States, and leading up to this hour of the sixteenth, the zero hour. I'd like to have Mr. Jerpe and Mr. Anderson tell you about it.

MR. JERPE: Sometime in 1941, Mr. Secretary, Mr. Wilson decided that we should put on some type of bond activity. We weren't at war and complacency was all around us, so in early January the corporation decided that we should do more about Defense Bonds. The War Management Committee, composed of our chairman and our president and three or four of our vice-presidents appointed Mr. Anderson, who is also a vice-president, and Mr. Fred Doner as the committee who would take charge of this particular phase of your problems. They, in turn, passed the job down to an operating committee made up of a man named Seaton, a man named Roberts, and me. Well, we

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wanted to do a selling job so we went to a selling organization. We went to Chevrolet and we said, "We want to sell bonds to our people the way you people successfully sell Chevrolets to the world."

H.M.JR: Harold, do you hear what he said?

MR. GRAVES: Yes. (Laughter)

H.M.JR: You must excuse me. Years ago, twenty years ago, I knew about a man who was sales manager for Chevrolet. He is now vice president of general motors, Mr. Grant, and I have been trying to get hold of Mr. Grant to talk to him for a month. I said, "There is a man that knows selling and this is just plain selling, and they haven't any more automobiles to sell, so let's get some of these fellows."

MR. JERPE: This program that we hope to show you would be a Mr. Grant program, because we are just disciples of his. So we went to Chevrolet and got the best man they had, Brents, assisting him were two other men, a man named Berger and a man named Dowling. These three men built a program and brought it back up to the operating committee to look at. We couldn't find anything wrong with it. We showed the program to Mr. Anderson, and three other vice presidents and they couldn't find anything that they could add to it. So we started to work on production. We started production on this plan on the twenty-eighth of February and we launched the entire campaign to two hundred twenty-six thousand employees through ninety campaign managers in the United States on April 8.

As I told you before, the campaign breaks itself, therefore, into three parts, three announcements. The slogan of the campaign is "Save and Serve for Victory." We kept out the A.V.E. and the R.V.E. and just gave them the S's, S.S.V. So we have had a lot of fun about what S.S.V. means, and the best thing we have gotten from it has been "Swing Shift for Victory."

H.M.JR: What?

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MR. JERPE: "Swing Shift for Victory." That comes from the men in the fields. Another one is "Sacrifice Sunday Vacations," so we are getting a lot of good stuff out of it. Now then, on the sixteenth, and we have teased them with stencils all over the floors, we have teased them with five thousand banners all over the country, they just couldn't walk anywhere without seeing S.S.V., and in our own General Motors we have kept it secret. Very few people know what S.S.V. means, but on the sixteenth rallies will spring up all over the U.S. at twelve noon when our plant managers and chosen experts will tell our people what S.S.V. means. A lot of music, a lot of selling, and when they come back to their desks or their machines, the application cards will be there for signature. An example, Mr. Wilson, our president, and Mr. Iseby, our colleague in this business, will be the experts at two General Motors rallies in the General Motors building on the sixteenth to our employees, and thanks to Mr. Anderson, on company time, not employee time. At the afternoon meeting at twelve twenty-five, will be Mr. Kettering to our research people and Mr. Iseby. Our audiences will be about fifteen hundred people in each of the three meetings. Multiply that by ninety, having ninety such meetings all over the country on April sixteenth. The Governor of Indiana will be the Muncie, Indiana speaker at our plant there.

We turned the campaign material over to our people and our campaign managers have just supplemented our original ideas so that it is making me look kind of dwarfish when I look over what they are all doing. I don't know what Mr. Anderson thinks. I haven't talked with him, but I think I feel safe in saying that we will not get one hundred percent participation by April thirtieth. At the present time we are in the throes of re-tooling, changing our plants over. We have some men who are not yet working, but, of course, they don't count because they are not employed. We have some people working three days a week, but I feel certain that before fall comes along we will be doing about a fifty million dollar business for you and our Government - annually and I think that by next year -

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Mr. Anderson, I have never talked to you about it - on the basis of a minimum of two hundred twenty-five dollars per employee, or one bond minimum, per employee per month, that by mid-summer we will be doing about a hundred million dollar bond business for the United States Government annually.

H.M.JR: You have got me a little confused. You first said fifty million dollars a year.

MR. JERPE: I mean, annually. I am talking yearly figures, fifty million the first statement, and a hundred million the second statement, annually.

MR. ISEBY: Double their employees, Mr. Secretary.

H.M.JR: When you are through I want to ask you some questions.

MR. JERPE: I am through, Mr. Secretary.

H.M.JR: Let just get this. Let's talk in terms of monthly pay roll. What is your monthly pay roll now?

MR. ANDERSON: The number of employees will run around about a hundred seventy thousand.

H.M.JR: How much average?

MR. ANDERSON: The average annual income of employees was twenty-one hundred forty dollars, that is, the hourly-rated people.

H.M.JR: But do you know how much your gross pay roll is?

MR. ANDERSON: I can't tell you. It runs up in such high figures, Mr. Secretary, I don't try to remember it.

H.M.JR: When he says two hundred million - what I am trying to get at is the terms of percentages. If your pay roll is a billion dollars, what percentage

of your pay roll will be invested in our bonds, that is what I am trying to get at.

MR. JERPE: One bond per month minimum is eighteen seventy-five times twelve, gives you two hundred twenty-five dollars annually. Then you multiply two hundred twenty-five by our anticipated four hundred thousand in mid-next-summer, that gives you a figure of ninety million dollars that is a minimum expectancy.

H.M.JR: What I was trying to get at is, because what we hope to do shortly is to go after ten percent of the pay roll, and I wondered how near.

MR. ANDERSON: This is way below ten percent.

MR. ISEBY: Not on the basis of twenty-one forty average.

MR. JERPE: Two hundred twenty-five dollars a year, twenty-one forty dollars would be about eleven percent of twenty-one hundred dollars.

MR. ANDERSON: I am thinking about salaried people on top of that. That would be a minimum figure.

H.M.JR: You said something about the average pay of employees.

MR. ANDERSON: Twenty-one forty.

MR. JERPE: Ten percent, two, two hundred twenty-five or better on our minimum. That is merely an expectancy. That is not an accomplishment.

H.M.JR: Well, this is music to my ears, because I have, from what you see in the papers, been going through a terrific fight in the last ten days. Fighting for the volunteer method of buying these bonds because I am a great believer in it, and I think I am all right. I don't know. The President has got to decide it. I want him to decide the thing.

MR. JERPE: Mr. Secretary, the figure that we are not satisfied with now is eleven dollars and some odd cents, I think ninety-four cents per participating employee at the present time.

H.M.JR: Well, that is what it is.

MR. JERPE: That is the present figure?

H.M.JR: You see, we are looking at this thing - the theoretical boys with the sharp pencils - you see, they say we have got to get out of current earnings another five billion dollars. They have been wanting to do it by the tax route, and I have been telling the President, "I can do it through getting it from the pay roll on the volunteer deduction basis, and I am confident that with the backing of industry and labor, I can get it." I haven't asked anybody yet anything other than just to put the system in. We have never said to anybody "This is the yardstick, now will you go out and help us get it up?"

Now, I have just said - it is like trying a horse around the track, trotting, but now you send a clock and he gets down to business. Up to now we haven't clocked anybody, just jogging around, and it has taken, like in your case, three hundred fifty thousand dollars worth of office machinery, I think, to be installed and so forth, and it takes time to get these things in. I wanted to ask you, have you got it so now if a man buys a bond he can get it fairly quickly?

MR. ANDERSON: That has been the main thing we were working out with Treasury. Mr. Prentiss is sympathetic with it. We have had a lag of almost a month. A fellow buys a bond, if he pays for the bond we ought to be in a position to say, "Here it is." He may turn around and say, "Well, put it in the safe for me," but he has his hands on it once.

H.M.JR: Can you do anything?

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MR. ANDERSON: The last figure I had is about a week. Even that is too long.

H.M.JR: What is the trouble?

MR. JERPE: Post offices.

MR. ISEBY: Mr. Secretary, I have been on that continuously in all our plants on this. You have met Mr. Jackson, who is with General Motors, and he split this up, I think he has the best sense of what it takes to do this job of any one of the large corporations. Certain places he is doing it with the post offices, certain places with the Federal Reserve Banks. He is trying to split it so he doesn't swamp anyone. We have got plants in Detroit that are nine weeks. I have got to devote all my time the next three weeks. The unions are after me. That is bogging this thing, nine weeks, ten weeks. I had a man call my house night before last, he said, "I have got nine bonds coming." I have got to get Chrysler and get them there.

MR. JERPE: In General Motors this is what we are doing now, Mr. Secretary, and Mr. Iseby: Our comptrollers in many of our plants do the purchasing of bonds for the employees for the plant. We have asked our comptrollers to purchase more frequently. In some instances they have only been purchasing it once each month so we are stepping that up to more frequent monthly interest values. Another thing we are doing in our campaign in addition to pay-roll deduction, we are asking our comptrollers to purchase bonds as delivery boys for anyone who comes in with a lot of money and says, "I want to buy a bond through General Motors." He can leave his money with our comptroller. Our comptroller will go out and buy a bond, deliver it to him, and we are considering that as participation when a man does that.

H.M.JR: I thought you went all through this with the Federal Reserve in Chicago, I thought that - hadn't General Motors been appointed to this committee?

MR. GRAVES: General Motors is not an issuing agent.

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H.M.JR: Can't we do something about that?

MR. ANDERSON: I imagine we can.

MR. GRAVES: That is the answer to this.

MR. ISEBY: It is the answer. It isn't the Treasury's fault. It is trying to get it.

MR. GRAVES: If they were issuing agents they could solve it.

MR. ISEBY: That is the thing we have to work on.

MR. ANDERSON: I don't know what the complications are, being an issuing agent, but if that is a complication, if that is a minor thing in the issuing--

H.M.JR: It is minor. Whoever your comptroller is we could fix him up over night, make him an issuing agent.

MR. ANDERSON: One of our problems is this, Mr. Secretary, as you may not know, we have got ninety plants scattered the length and breadth of the country, so if we had an issuing agent, we will say in Detroit, we will still have a lag of maybe a week getting it back to the plants.

H.M.JR: Let me ask you this. I haven't been through this. Your ninety plants, don't they pay out at each plant? Don't all pay out at Detroit?

MR. ANDERSON: At each plant.

H.M.JR: Why can't each plant have an issuing officer?

MR. ISEBY: I spent that time with Mr. Jackson. I have been working with him. As I say, General Motors are getting the bonds to their employees faster than any others could now.

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H.M.JR: There is no reason that I know of, is there, Harold, why General Motors can't, if they wanted to, be an issuing agent ninety times over?

MR. GRAVES: No reason they couldn't issue at any plant where they have the office facilities.

H.M.JR: Who is handling that, who is responsible for that for me?

MR. GRAVES: Dan.

H.M.JR: I see.

MR. GRAVES: As a matter of fact, it is being handled, as you know, by the Federal Reserve Banks, and I might say, for the information of these gentlemen that of the five hundred companies in the U.S. employing more than five thousand people, about a hundred and twenty have qualified as issuing agents, one hundred twenty out of five hundred larger corporations in the country are taking care of the issuance of bonds for their employees.

H.M.JR: That is such an easy thing to do. I mean, it seems wicked if the people want to sell it that they shouldn't get the bond the same day they buy it.

MR. ANDERSON: Over-the-counter delivery is my idea.

H.M.JR: Yes, mine too. You go in and buy a car, you don't wait, you want the car. You put the check down and you want the car that day. Certainly if you can deliver a car we ought to be able to have the bond there.

MR. JERPE: Your tailor can deliver a suit in two weeks--

MR. ISEBY: The day that happens, the extra five billion dollars that you are talking about will be no question, that is the only thing that is holding it now.

H.M.JR: If that is the only thing we can take care of that.

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MR. ANDERSON: Let me say this, I will be giving this question about why we are not an issuing agent to Mr. Iseby or anybody you designate, as to what the complications are from our point of view.

H.M.JR: Give it to Iseby. He can give it to us. Do I understand you have some literature you want me to look at?

MR. JERPE: I have a selling presentation for you. It is a selling thing.

H.M.JR: I'd like to see it.

MR. ANDERSON: I would like to make two comments. We put this thing off another month on account of March 15. We could have got under way a month earlier.

April 14, 1942
4:22 p.m.

Mr. C. S.
Young: Young speaking.

HMJr: Mr. Young.

Y: Yes.

HMJr: Morgenthau speaking.

Y: All right.

HMJr: How are you?

Y: Just fine, Mr. Morgenthau.

HMJr: Mr. Young, on April 16th General Motors is starting a big campaign on this War Bonds.

Y: On April 6 - April 16?

HMJr: April 16.

Y: Yes.

HMJr: Now, they want to - I don't think they're a fiscal agent.

Y: No, just the General office - the office management there signed that.

HMJr: Well, they've got ninety different branches, and I want to get this thing - at least offer them enough cooperation that we get on a basis where we give the man the bond the day he buys it.

Y: Uh huh.

HMJr: Now, our State Manager, Iseby, comes in and says people call him up at the house from Chrysler and say they don't get their bond under nine weeks.

Y: Oh, that's a - if we have anything to do with it, it isn't nine weeks.

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HMJr: Well, anyway.....

Y: No. We're on a five and six day here, and I'm sure that the branch isn't very much more than that.

HMJr: Well, I don't know. It ought to be the same day.

Y: Yes.

HMJr: Now, I'm going to let Mr. Bell talk to you, and then we want to send somebody to Detroit tonight.

Y: Uh huh.

HMJr: A good man.

Y: All right.

HMJr: And we'd like you to send somebody there and stay there until we get this Detroit thing straightened out.

Y: All right. Well, I'm sure that they're wrong about the delay.

HMJr: Mr. Bell will talk to you a minute.

Y: All right.

Daniel Bell: Hello, Hap.

Y: Hello. How are you, Dan?

B: Okay. Say, I think maybe Sihler ought to go out there and meet Mills at the branch tomorrow morning, and let them go over the ground work there and then go over and see the General Motors comptroller together.

Y: All right.

B: And Mills will have the story, and you can work from that point on.

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Y: Is Mills coming from your place?

B: Yes. He's going tonight, and I don't know what time he gets there.

Y: Well, all right. I'll have Sihler there in the morning, and.....

B: Wait a minute. (Talks aside) What's that?

He'll be there at eight-thirty in the morning, so he'll go to the branch sometime between nine and ten, I should think.

Y: And I think probably it might be well to have our cashier to go as to the mechanics of the thing, but I'm pretty sure that they're all wrong about the delay up there; because they're not very far behind.

B: Well, I think we'd have heard of it before this if that had been true.

Y: All right. Well, of course, we're six days - five or six days - it takes three days for checks to clear, and they're only a few days behind.

B: Uh huh. Well, let's get on it anyhow and settle it.

Y: All right, and I'll.....

B: That's General Motors and Chrysler.

Y: All right. Well, now, are they going to have an opportunity to talk to General Motors people tomorrow?

B: Yes. I understand the comptroller is expecting somebody to come there.

Y: Well, that's fine. Well, I'll have two of the boys there in the morning - at the branch.

B: All right.

Y: All right.

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B: Thanks, Hap.
Y: We'll take care of it.
B: Right.
Y: All right.

April 14, 1942
4:30 p.m.

HMJr: Hello.

Judge
Rosenman: Henry.

HMJr: In person - in the flesh.

R: How are you? I got four calls that the Secretary's going to call, and then the Secretary's going to call twenty minutes later.

HMJr: Does it disturb you?

R: Finally I got you.

HMJr: Did it disturb you?

R: No, I like to be warned like that.

HMJr: They didn't get you.....

R: I hope you guys use a direct wire instead of spending my tax money on it.

HMJr: I've got four wires.

R: Okay. What are the numbers? It's a good way to call you.

HMJr: (Laughs) You call the Federal Reserve and ask for me.

R: Federal Reserve. Okay.

HMJr: Where are we?

R: I'm in New York.

HMJr: No, but I meant on this - the President is using my letter to him on that fifty per cent business and sales tax.

R: Yeah. It's a good letter. It's convinced me.

HMJr: He's using it at his press conference today. He asked us to condense it.

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R: It convinced me.

HMJr: Now, Sam, where do we stand.....

R: I'm not convinced on compulsory savings yet.

HMJr: You're not.

R: No.

HMJr: Well, is the President.

R: Well, I think he is. (Laughs) Well, he's leaning that way.

HMJr: Well, you remember you said you were going to let me have a draft.

R: Yes.

HMJr: When?

R: Well, we haven't really got down any decent draft, except I knocked out a very rough thing for him.

HMJr: Yeah.

R: But he really - he hasn't read it.

HMJr: Well, when do you think - I like them rough.

R: Yeah.

HMJr: (Laughs) When can I see it?

R: I'll get you a copy of "Esquire".

HMJr: That's not rough enough.

R: But he's leaning your way on compulsory savings.

HMJr: He is.

R: Yes.

HMJr: How about the taxes?

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R: Well, I'm convinced you're right on the taxes.

HMJr: I see.

R: I've read that booklet you gave me. I thought it would be awfully dull, but it's very interesting.

HMJr: You mean the various speeches?

R: Yeah.

HMJr: Did you read that?

R: Yeah.

HMJr: Good for you.

R: The only thing that I haven't read yet is that letter of April 3. I'm going to read that tonight.

HMJr: Well, he's using that at his press conference.

R: No, that isn't the one you're talking about. You're talking about the one.....

HMJr: Oh, no. Not the April 3rd one.

R:on April 14 - April 11.

HMJr: Yeah.

R: No, I mean the one of April 3rd. The letter of April 11 is very good.

HMJr: With all modesty, wasn't my speech in Boston on inflation good?

R: It was very good coming then.

HMJr: Yeah.

R: Damn good.

HMJr: Well, Sam, I know you're holding your cards close.

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R: No. Well, I'm not doing any more than not revealing anything I shouldn't.

HMJr: Yeah.

R: I'm coming down tomorrow night.

HMJr: Yeah.

R: I'm going to see you at the dinner with those Lions, I think.

HMJr: Right.

R: If I'm there.

HMJr: Well, do I have to get you drunk to make you talk?

R: Well, there's really nothing to say. You know he went away on Saturday.....

HMJr: I see.

R:and I haven't seen him since.

HMJr: I see.

R: I spent Saturday knocking out a rough draft, which I don't think I ought to give you, because he really hasn't seen it.

HMJr: That's all right. Well, just let me ask you this.....

R: Since then I haven't talked with him. I will, I'm sure, this week-end, at great length.

HMJr: Well, let me put it this way. As far as you're concerned, the only thing that you still have got to be sold on is the volunteer method.

R: That's the only thing I disagree with you on except - well, on the general thing, I don't think it ought to be - you know, what you were saying about a general appeal.

HMJr: Yeah.

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R: I think it ought to be tougher than that.

HMJr: You mean on.....

R: I don't think legislation is necessary.

HMJr: Well, that's what I said.

R: But some directions to the Labor Board would be.

HMJr: Well, anyway, I'm seeing you tomorrow night.

R: Yeah, if I get down in time. Is that a drinking dinner?

HMJr: I hope so.

R: All right, Henry.

HMJr: You'll be there.

R: I'll be there.

HMJr: Righto.

R: Okay.

HMJr: Thank you.

April 14, 1942
4:34 p.m.

HMJr: Hello.

S: Hello.

HMJr: Morgenthau.

S: Just a moment. (Talks aside) Secretary Morgenthau.

Grace Tully: Hello.

HMJr: Morgenthau.

T: Mr. Secretary.

HMJr: Yes.

T: The President has people both Wednesday and Thursday, but he said he'd see you over the week-end if you're going to be home.

HMJr: Home.

T: Uh huh.

HMJr: Yeah.

T: Are you going to be?

HMJr: Oh, you mean home.....

T: Home up-state.

HMJr: Home on the range.

T: Yeah.

HMJr: Yeah, I'm going to be home on the range.

T: I see.

HMJr: But I'd kind of like to see him before that.

T: You would.

HMJr: Yeah.

- 2 -

T: Uh huh.

HMJr: Because I want to make some plans on our bond selling campaign.

T: I see.

HMJr: And - in advance - if he's going to stick to the volunteer plan.

T: Uh huh.

HMJr: Do you suppose I could get a regular appointment tomorrow?

T: Why don't you try the General, huh?

HMJr: Try the General.

T: Yeah.

HMJr: I'll do that.

T: All right. Because I don't know how their schedule is, Mr. Secretary. I never know, you see, in advance; until I get my copy in the morning, I don't know what's happening on their list.

HMJr: I'll do that.

T: Grand.

HMJr: Thank you.

T: All right. Fine, Mr. Secretary. Good-bye.

April 14, 1942
4:40 p.m.

HMJr: The General Motors people have just come in here and have explained to me what they propose to do beginning with April 16 to reach every employee in their company to get them on this volunteer payroll deduction plan. Hello.

Robert
Doughton: I hear you.

HMJr: They put practically their whole sales force to work on this thing. They can't sell automobiles, so they propose to do this. I was tremendously impressed, and the union is cooperating with them.

I wondered whether you'd be willing, or think it would be wise, to let them take a half an hour and explain it to your committee, and - because this is the kind of thing that I propose to do, and this is the way I propose to raise the money, on a volunteer basis; and I never could explain it half as well as General Motors could explain it.

D: Uh huh. Well, when would they want to come?

HMJr: Well, they'd accept any time on the sixteenth that would be convenient to you.

D: The sixteenth?

HMJr: Yes.

D: That's Thursday.

HMJr: Yeah.

D: That's - tomorrow's tobacco day. Well, I don't know until I consult my clerk - the clerk of the committee - just what he's got, but I'd be delighted to have them come and do it; and if it was necessary, why they, I would think, ought to do it when there's a full committee, and it's hard to have a full committee amongst those we could get to be present at night.....

HMJr: Yeah.

- 2 -

- D:but I'd be willing - we'd be might glad even to go in at night and take care of the calendar. I'm trying to clear up the calendar day by day.
- HMJr: Yeah. Well, they would do it at night. They just - I just was.....
- D: Well, I'll have them put on for Thursday, I'll tell you that right now, and I'll see as to what time we can get them on. I think it's a fine idea, and I think it's very patriotic of them and unselfish to do it, and I approve it a hundred per cent and I think it will be helpful.
- HMJr: Now.....
- D: It will help the country, as well as the committee, I think.
- HMJr: And I-- do you suppose we could get Walter George to come over, too?
- D: Why, yeah. I'll call him and invite him and give him a chair right on our - I'll get him a cushioned chair right up on the platform.
- HMJr: Yeah, and maybe some Republican, also, from over there.
- D: Yeah, we'll let him bring anyone he wants to.
- HMJr: He might invite the whole committee.
- D: That's Thursday.
- HMJr: Yeah.
- D: Yeah, he might invite the whole committee if he'd like to.
- HMJr: Yeah.
- D: That'd be all right. Well, now, will you do it or shall I do that?
- HMJr: No, no, no, no. I'll - all I'll do is tell General Motors to be in town Thursday.

- 3 -

D: Be ready for call any time Thursday, and we'll let them know Thursday morning about what place they'll have on the record.

HMJr: That's right.

D: On the calendar.

HMJr: And they'll bring with them also the head of the union who is cooperating with them.

D: What kind of a union are you talking about?

HMJr: Well, I mean the union - it's the automobile union.

D: Uh huh. You mean the employees'?

HMJr: The employees', yes.

D: Yeah.

HMJr: Representative - no, a representative of the employees.

D: I understand.

HMJr: So I mean, it wouldn't be just the company, there'd be a representative of the employees.

D: Well, that's what I understand. Speaking for them.

HMJr: Speaking for the employees.

D: Yeah. What more do you hear about the matter we discussed Saturday?

HMJr: Nothing other than that the President asked me to give him a statement today for his press conference, which he was going to use on - about taxing the lower exemption groups.

D: Uh huh.

HMJr: Now, whether he used it or not - but he sent over a hurry call at three o'clock please to send him over a statement, and I've asked to see him tomorrow to just check up where we stand.

- 4 -

- D: Somebody was just telling me that in the afternoon paper maybe that there was not so much likelihood of coming out for requesting such a large increase in the tax bill. Did you hear anything about that?
- HMJr: Well, it's just where I left it Saturday. I have had no word from him that he wants more taxes.
- D: They've been telling me, you know, right along that we'll be called on for more and more, and somebody told me that - said there was an article in the New York Times about their saying you were studying it over the week-end, but I didn't believe that.
- HMJr: Well, I told the newspaper men that was an untruth.
- D: Yeah. Well, I was satisfied about that. Somebody called my attention to it, and I said, "I don't believe that at all."
- HMJr: No, that was an untruth.
- D: Yeah, I was certain of that. Well, they just write those things as feelers, you know.
- HMJr: Yeah.
- D: Yeah.
- HMJr: All right.
- D: I'll call Senator George right now about that.
- HMJr: Yeah, and I'll have these General Motors men available Thursday.
- D: Well, I can let him know then some time Thursday about what time they can come over
- HMJr: That's right.
- D: So they won't lose much time.
- HMJr: That's right.

- 5 -

D: All right, thank you; and I think it's a fine suggestion and a fine plan.

HMJr: Thank you.

D: Good-bye.

April 14, 1942
4:45 p.m.

DEFENSE SAVINGS BONDS

Present:

Mr. Buffington
Mr. Houghteling
Mr. Gamble
Mr. Iseby
Mr. Anderson
Mr. Jerpe
Mr. Mills
Mrs. Klotz

H.M.JR: I just spoke to Mr. Doughton, chairman of the Ways and Means Committee, and asked him did he think it would be a good idea to have General Motors come up and explain what their plan was on the sixteenth, bringing with them a representative of the union, and he said it would be a magnificent idea and he would invite Senator George and as many of his people to come over, too.

MR. ANDERSON: We will be there.

H.M.JR: Now, he said if you would be here Thursday, be here on tap, he would let me know what time Thursday, some time during the day or they might do it at night, but he thought it was a very fine idea and he would very much like to have you people come, bringing with you a representative of the union and let him arrange with him to give him time to make his talk.

MR. ANDERSON: Do you want me to make the arrangement with the union?

H.M.JR: I will leave it with you (Iseby).

MR. ANDERSON: We will fix it up.

- 2 -

MR. ISEBY: All right.

H.M.JR: And Mr. Houghteling, who looks after unions - General Motors, Mr. Houghteling, Mr. Iseby, the three of you make sure that the union is here, that they are happy about this thing, you see. I want at least as much enthusiasm as you showed.

MR. JERPE: Thank you.

H.M.JR: Could you count on that? When does your train leave?

MR. ISEBY: It has gone.

H.M.JR: What do you do, go back?

MR. ISEBY: I think I shall go back because I think we ought to take Mr. Houghteling, Mr. Anderson to Mr. Reuther and these men in Detroit to make sure that they are all one hundred percent in accord so when they step up before Mr. Doughton and his committee that they will be just as enthused as Mr. Jerpe.

H.M.JR: That is right. It is very important that we get a united front, that this is management and labor, this is what they want. It is unique. I don't know whether it has ever been done before, go before a committee of Congress and explain the thing. It won't do General Motors any harm.

MR. ISEBY: I think they will do it a hundred percent.

MR. ANDERSON: I am reasonably sure. I can almost vouch for it, but I don't want to go quite that far. I am reasonably sure they will endorse it.

H.M.JR: You look after it. (Iseby) Is that all right with you, Harold?

MR. GRAVES: Yes, sir, fine.

H.M.JR: And then if you are here Thursday morning I will get word, give you the time, but Mr. Doughton said fine, and we will let the press know what is going to happen. I used the sixteenth because that is the day you shoot the plan.

MR. ANDERSON: All the more reason.

MR. JERPE: I think I will go back, Mr. Anderson, because I have a lot of work to do tomorrow. I will have to have some one understudy me on the meetings, come back tomorrow night.

H.M.JR: Tell Mr. Grant about this thing and maybe he can get off a half an hour to go up and see you boys do your stuff.

MR. ANDERSON: We will take him right along with us.

H.M.JR: Take him up to see you do your stuff. If I can get away for half an hour I will go up myself, too.

MR. JERPE: Thank you, sir.

H.M.JR: You fellows are doing me a favor, and then you see what we are going to do afterwards is get you fellows to help us with the other industry to do the thing, but this is the best plan I have seen yet.

MR. ANDERSON: Thank you very much.

H.M.JR: And it is sales talk, and that is what we need. It is the best thing I have seen.

MR. GAMBLE: You might be interested to know these gentlemen have offered to print a thousand in colors of their small turnover (chart). Supply them to every large corporation in the country.

H.M.JR: Leave me the big one. I have asked for an appointment to see the President. If I see him tomorrow I want to show him. Just the big one, just the thing you flipped over, just the easel board.

- 4 -

MR. JERPE: If you don't have an easel it is hard to present it, and you don't have an easel.

H.M.JR: He wouldn't give me time. He will leave it. I will take it over. He will say, "What in heaven's name are you bringing?" I will say, "I am trying to sell a set of books." And he will leaf through the thing, and if he likes it sometimes he will take the time - he may take the whole thing, he may just leaf it through, but I want that thing that you had on the easel.

I understand you people want to contact your comptroller. Is that right?

MR. ANDERSON: That is correct, Mr. Secretary. I would like to get it ironed out with Mr. Prentiss, find out what the complications are, then I'd be very glad to contact your office.

H.M.JR: Call up Chicago, We are ready to turn the whole Federal Reserve, the Treasury loose, to help you deliver the bonds the day they are bought."

MR. ISEBY: I want, Mr. Secretary, to have meetings at the same time with the other thirty-two industrialists in Detroit.

H.M.JR: You mean that you do this?

MR. ISEBY: Yes, sir.

H.M.JR: Mills is the man. I asked him whether he knew how to curse, and he says he does.

MR. MILLS: I can learn from the Defense Savings Staff, I am sure.

April 14, 1942

Dear Archie:

This is just to tell you that I have forwarded your letter of April 11th to our Public Relations Section and to the War Savings Staff with the suggestion that they cooperate in every possible way in carrying out the policy which you have outlined.

We have already made informal use of your clearance facilities in this way, and our public relations people are very glad of the opportunity to check any material which might conceivably affect the work of other Government departments.

Sincerely,

(Signed) Heary

Hon. Archibald MacLeish,
Chairman, Committee on War Information,
Office of Facts and Figures,
Washington, D. C.

FK/cgk

*Photo file D. M. C.
File to Hampton*

OFFICE OF FACTS AND FIGURES
WASHINGTON

April 11, 1948

Dear Mr. Secretary:

On January 23, the President requested the members of the Cabinet, the Federal Administrators, Under Secretaries and Assistant Secretaries of the Executive Departments, and Heads of independent agencies to submit their public addresses to the Office of Facts and Figures. This procedure was adopted to ensure consistency in government policy and to avoid confusion and contradictory statements of government policy on matters affecting more than one department or agency. The function of OFF in this procedure has consisted primarily in clearing up possible conflicts among various departments and agencies. Within its limited field, the procedure has worked, I believe, with marked success.

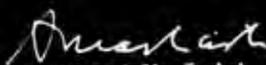
Obviously, however, the procedure will fail of its purpose if corresponding effort is not made to preserve consistency and to avoid conflict in the expression of government policy in press conferences, press releases, or in other forms of statements which do not come within the category of public addresses.

Taking note of this situation the Committee on War Information directed me to suggest to the various departments and agencies that they scan with greatest care all releases and other statements emanating from their offices with a view to guarding against the publication of any information which may materially affect the work of other departments or agencies without clearing such publication in advance with such other departments or agencies either directly or, if they prefer, through the liaison facilities of OFF.

In view of the far-reaching ramifications of the war effort, informational statements which ordinarily would seem to relate only to the work of a particular bureau may on examination be found to affect most seriously the work of other agencies. For example, a recent release of a certain Department announced that tests made by one of its bureaus indicated that certain types of colored plastic could be used to protect the eyes of persons fighting incendiary bombs. Unnecessary and unintentional embarrassment resulted because the release was made without consultation with the Office of Civilian Defense which, if it does not meet the demand for such glasses from

thousands of its air-raid wardens and fire fighters, will have to be prepared to explain why such demand cannot or should not be met. It is clear that with the exercise of a little care and foresight not only may serious embarrassment be avoided but governmental teamwork, vitally essential to our war effort, may be markedly improved.

Faithfully yours,



Archibald MacLeish
Chairman, Committee on War Information

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



TREASURY DEPARTMENT
WASHINGTON

April 14, 1942.

MEMORANDUM FOR THE SECRETARY:

In accordance with your request this morning,
I hand you herewith folders ^(returned) containing statements of
the experience and duties of the principal employees
of the War Savings Staff in Washington.

These were very hastily and, I fear, imperfectly
done, but I trust they will serve your immediate
purpose.

If you like, I will be glad to have them done
again, with greater care and more completely.

GRAVES.


FOR DEFENSE





TREASURY DEPARTMENT
WASHINGTON

April 14, 1942.

MEMORANDUM FOR THE SECRETARY:

I have received the following from Mr. Poland about Miss Jane Seaver:

"I have had Miss Jane Seaver in to see me about the possibility of her working for us. She told me when she was in my office that she had already applied for another position. Saturday morning when I telephoned her to find out whether she had made up her mind, she told me that OPA had finally cleared her application and that she had so far committed herself with them that it would be a breach of good faith if she did other than accept the OPA job."


GROVES.

*Copy to Mrs.
M. 4/15/42 -*

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 14

TO Secretary Morgenthau
FROM Mr. Callahan

MR

The production man who actually controls volume, timing, etc. on Wheeling Steel is Maury Longfellow. His superior, J. L. Grimes, General Advertising Manager of the Wheeling Steel Corporation, Wheeling, West Virginia, directs the production. Mr. Longfellow can be reached through Mr. Grimes' office.

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
11	2,150	5,224	668	2,720	8,613	7,374	668	2,720	10,762
13	4,619	17,571	2,432	8,604	28,608	22,190	2,432	8,604	33,227
Total	\$ 34,108	\$104,163	\$ 17,005	\$ 74,617	\$195,786	\$138,271	\$ 17,005	\$ 74,617	\$229,894

April 14, 1942.

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

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

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

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Eleven Business Days of April, March and February 1942
 (April 1-13, March 1-13, February 1-13)
 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	\$ 34,108	\$ 40,003	\$ 47,158	-\$ 5,895	-\$ 7,155	- 14.7%	- 15.2%
Series E - Banks	<u>104,163</u>	<u>118,956</u>	<u>178,899</u>	- <u>14,793</u>	- <u>59,943</u>	- <u>12.4</u>	- <u>33.5</u>
Series E - Total	138,271	158,959	226,057	- 20,688	- 67,098	- 13.0	- 29.7
Series F - Banks	17,005	20,394	29,433	- 3,389	- 9,039	- 16.6	- 30.7
Series G - Banks	<u>74,617</u>	<u>89,532</u>	<u>146,008</u>	- <u>14,915</u>	- <u>56,476</u>	- <u>16.7</u>	- <u>38.7</u>
Total	<u>\$229,894</u>	<u>\$268,884</u>	<u>\$401,499</u>	-\$ <u>38,990</u>	-\$ <u>132,615</u>	- <u>14.5%</u>	- <u>33.0%</u>

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

April 14, 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.

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ASSISTANT SECRETARY OF THE TREASURY

April 14, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The Office of Price Administration has asked the assistance of the Secret Service in checking apparent irregularities by three men concerned in tire rationing in the District. One of the three suspects is a Secret Service man, Captain Herbert L. Marcey of the White House Guards.

I recommend approval, especially since we shall probably have to do our own investigation of Marcey in any event.

MS.

*O.K.
M.H.*

OFFICE OF PRICE ADMINISTRATION

RECEIVED WASHINGTON, D. C.
SECRET SERVICE

Temporary Building D

1942 APR 10 A

IRC

April 9, 1942

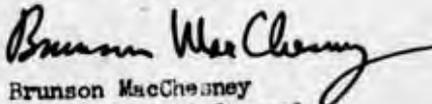
Refer to: 5:4:JHJ

Mr. Frank J. Wilson
Chief
Secret Service
Treasury Department
Washington, D. C.

Dear Mr. Wilson:

We are presently investigating the tire rationing situation in the District of Columbia, and in connection with that investigation we are interested in a check-up of Captain Herbert L. Marcey of the White House Guards, Eugene T. Brady, formerly chief clerk of the District Rationing Board, and John M. Cawood, one of the inspectors of the local Motor Vehicle Division. We would appreciate your assistance in checking possible local bank accounts of these three individuals from January 15 through February 28. If you are disposed to assign one of your men to the type investigation we have indicated, please call Mr. John Joss of my staff, whose telephone number is Republic 7500, extension 6610.

Very truly yours,



Brunson MacCheesney
Assistant General Counsel



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

E. R. Stettinius, Jr.
Administrator

April 14, 1942

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

Dear Mr. Secretary,

Thank you for your letter of April 11 relative to record keeping requirements in connection with Lend-Lease export cargo.

I note you approve the idea we had of creating a special committee to study this situation. I am designating Mr. J. M. Juran of our organization to serve on this committee. I agree with you that the War Department should be represented.

Subject to your approval, I am asking Mr. Juran to serve as chairman of this committee, to complete its organization, and to call a meeting at the earliest possible date.

With best wishes,

Sincerely yours,

Thomas B. McCabe

Thomas B. McCabe
Acting Administrator

STRICTLY CONFIDENTIAL

MOVEMENT OF RUSSIAN LEND-LEASE MATERIAL FROM PHILADELPHIA PORT

Report of Telephone Conversation by Mr. Sidney G. Tickton
April 14, 1942

On Tuesday afternoon, April 14, I telephoned Lt. Col. H.G. Williams, of the War Department's Service of Supply, at his Philadelphia office to discuss the movement from the port of Philadelphia of lend-lease materials for Russia. The Colonel gave me the following information:

1. The traffic situation in Philadelphia is under complete control. Bottom cargo has been flowing into the port in sufficient quantity, and the railroads, the Russians, and Moore-McCormack are working together smoothly.
2. Nine ships carrying Russian cargoes sailed from Philadelphia during the past week, and 9 ships also sailed during the preceding week. These sailings brought the total number of ships departing with Russian cargo during the past month up to approximately 30.
3. Nine ships were in port today. Three of these were completely loaded and expected to sail before nightfall, and 5 of the remaining ships will sail by Thursday or Friday of this week. The ninth ship will sail next Monday, having been in port only a few days.
4. It has now become possible to turn ships around in about 8 days. This is the goal at which Col. Williams aimed when he arrived in Philadelphia 3½ weeks ago.

Bottom cargo for Russians sent from mills to Philadelphia,
total April 5 to April 11 and daily April 12 and 13, 1942

Name of company and commodity	Tonnage		
	Total April 5 to April 11	Sunday April 12	Monday April 13
<u>Brass</u>			
American Brass Co.....	513		75
Chase Brass & Copper Co.....	58		
Revere Copper & Brass Co.....	176		58
Scovill Manufacturing Co.....	97		
Wallingford Steel Co.....	16		
<u>Copper</u>			
American Brass Co.....			19
Anaconda Wire & Cable Co.....	24		
<u>Nickel</u>			
International Nickel Co.....	200		
<u>Steel</u>			
Alan Wood Steel Co.....	152		405
Allegheny Ludlum Steel Co.....	440	144	94
Arco International Co.....	1,762		300
Bethlehem Steel Co.....	2,331	122	103
Brimard Steel Co.....	50		
Cold Metal Products Co.....	30		
Collier Insulated Wire Co.....	15		
Great Lakes Steel Corp.....	1,426	37	
Inland Steel Co.....	547		
Johnson Steel & Wire Co.....	24		
Jones & Laughlin Steel Corp.....	537		41
Keystone Steel & Wire Co.....	370		109
Madison Wire Co.....	81		
McLouth Steel Co.....	622	135	52
National Tube Co.....	165		
New England High Carbon Wire Co.....	9		
Newport Rolling Mills.....	90		
Otis Steel Co.....	772		99
P & W Co.....	255		
Pittsburgh Steel Co.....	457		
Republic Steel Corp.....	3,434	1,074	254
Seneca Steel Co.....	70		
Sharon Steel Co.....			37
Superior Steel Co.....	217		
Thomas Steel Co.....	234		60
Thompson Steel & Wire Co.....	200		
Union Brass Steel Co.....	460		
U. S. Steel Export Co.....	303		269
Universal Cyclops Co.....	9		
Vulcan Crucible Co.....	1		
Wallingford Steel Co.....	138		
Weirton Steel Co.....	231		71
Wheeling Steel Corp.....	1,365		193
Youngstown Sheet & Tube Co.....	221	58	29
<u>Miscellaneous</u>			
Electro Co.....	130		
Vanadium Corp.....	56		
Total.....	18,952	1,576	2,268

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

April 14, 1942

Source: Procurement Division, Treasury Department.

Bottom cargo for Russians sent from mills to Baltimore,
total April 5 to April 11 and daily April 12 and 13, 1942

Name of company and commodity	Tonnage																																																																																														
	Total April 5 to April 11	Sunday April 12	Monday April 13																																																																																												
<u>Brass</u>																																																																																															
American Brass Co.....	329		47																																																																																												
Chase Brass & Copper Co.....	42			<u>Steel</u>				Allegheny Ludlum Steel Co.....	11		70	Pethlehem Steel Co.....	334		23	Blair Strip Steel Co.....	19			Brainerd Steel Co.....	50			Colonial Steel Co.....	33		247	Great Lakes Steel Co.....	731			Inland Steel Co.....	1,010			Johnson Steel & Wire Co.....	44		92	Jones & Laughlin Steel Corp.....	3,342			Otis Steel Co.....	293			P & M Co.....	51	253	448	Republic Steel Co.....	3,830			John A. Roebling & Sons.....	33			Seneca Steel Co.....	54		71	Sharon Steel Co.....	194			Thomas Steel Co.....	35		334	U. S. Steel Export Co.....	2,736		106	Weirton Steel Co.....	644	431	710	Youngstown Sheet & Tube Co.....	1,310			<u>Miscellaneous</u>				McKenna Metals Co.....	353			Total.....	15,478	684	2,148
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Office of the Secretary of the Treasury,
Division of Research and Statistics.

April 14, 1942

Source: Procurement Division, Treasury Department.

Bottom cargo for Russians sent from mills to New York,
total April 5 to April 11 and daily April 12 and 13, 1942

Name of company and commodity	Tonnage		
	Total April 5 to April 11	Sunday April 12	Monday April 13
<u>Brass</u>			
Phelps Dodge Co.....	113		
<u>Iron</u>			
Oliver Iron Co.....	22		
<u>Steel</u>			
Armco International Co.....	530		356
Bethlehem Steel Co.....	123		65
Cold Metal Products Co.....	53		
Crucible Steel Co.....	28		
Great Lakes Steel Co.....	1,641	230	84
Halcomb Steel Co.....	66		
Heppenstahl Co.....	59		137
Indiana Steel & Wire Co.....	135		1,783
Inland Steel Co.....	956		46
Jones & Laughlin Steel Corp.....	469		
National Standard Co.....	54		90
Otis Steel Co.....	981		
P & M Co.....	51		
Pittsburgh Steel Co.....	1,473	52	
Republic Steel Co.....	391		
Sheffield Steel Co.....	65		597
U. S. Steel Export Co.....	3,103	52	
Washington Tin Plate Co.....	34		
Weirton Steel Co.....	45		84
Wyckoff Drawn Steel Co.....	348	166	114
Youngstown Sheet & Tube Co.....	2,939		
Total.....	13,679	500	3,356

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

April 14, 1942

Source: Procurement Division, Treasury Department.

April 14, 1942.

George Haas
Secretary Morgenthau

Please send Tickton's report on New York and Baltimore over to Clif Mack's office the first thing in the morning. I think the man's name is LeFevre who is in charge while Mack's away. After they have it, I'm going to send for them and talk to them.

I wonder if you could give me a rough chart, if the figures are existing, showing how much instalment credit is outstanding each month for the last 12 months. I want to see what, if anything, Federal Reserve has done to cut this down. Also get the date on which they made this announcement affecting instalment credit. I'd call up Goldenweiser, if I were you, and get it from him to save time. - *See Haas' memo*

4/14/42

TREASURY DEPARTMENT

200

INTER OFFICE COMMUNICATION

DATE

APR 14 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Consumer Credit

In accordance with your request, there are attached hereto a table and a chart showing the changes in the amount of consumer credit outstanding by classes, at the end of each month from December 31, 1940, to date.

The total estimated amount of consumer credit outstanding on August 31, 1941, was \$9.8 billions, an all-time high. The Board of Governors of the Federal Reserve System commenced the regulation of consumer credit on September 1. Since that time, there has been an increasing scarcity of those durable consumer goods usually purchased on credit. This scarcity, according to Mr. Parry (who is in charge of enforcement of consumer credit regulation for the Board of Governors), has been the major factor in the subsequent contraction of the outstanding amount of consumer credit; although he believes that the regulation of consumer credit has also had an appreciable influence.

In evaluating the decrease of only \$200 millions in consumer credit between August 31, 1941, and the end of the year, it should be noted that there would normally have been a substantial seasonal increase in consumer credit during the period. On the other hand, the contraction of \$1.1 billions in total consumer credit since the first of the year has been partly seasonal.

It is interesting to note that "retail installment credit", which includes installment sales of automobiles and other durable consumer goods, has contracted from \$4.0 billions on August 31, 1941, to \$2.9 billions on March 31, 1942. This represents about 85 percent of the total contraction in consumer credit which has occurred during the period, although such credit represents well under one-half of the total amount of consumer credit outstanding.

Attachments

Estimated Amount of Consumer Credit Outstanding
at the End of Each Month
(Billions of Dollars)

	Retail Installment Credit	Cash Installment Credit <u>1/</u>	Charge Account Credit	Service Credit <u>2/</u>	Commercial Bank Accommodation Loans	Total
<u>1940</u>						
December	3.3	1.8	2.4	.6	.6	8.7
<u>1941</u>						
January	3.3	1.8	2.2	.6	.6	8.5
February	3.3	1.8	2.1	.6	.6	8.4
March	3.3	1.9	2.1	.6	.6	8.5
April	3.5	1.9	2.3	.6	.6	8.9
May	3.7	2.0	2.4	.6	.7	9.4
June	3.8	2.0	2.4	.6	.7	9.5
July	3.9	2.0	2.4	.6	.7	9.6
August	4.0	2.1	2.4	.6	.7	9.8
September	3.9	2.0	2.5	.6	.7	9.7
October	3.8	2.0	2.5	.6	.7	9.6
November	3.7	2.0	2.5	.6	.7	9.5
December	3.6	2.0	2.7	.6	.7	9.6
<u>1942</u>						
January	3.4	1.9	2.5	.6	.6	9.0
February	3.1	1.9	2.5	.6	.6	8.7
March	2.9	1.9	2.5	.6	.6	8.5

Treasury Department, Division of Research and Statistics.

April 14, 1942

Source: Board of Governors of the Federal Reserve System.

1/ Small loans, etc.

2/ Doctors' bills, etc.

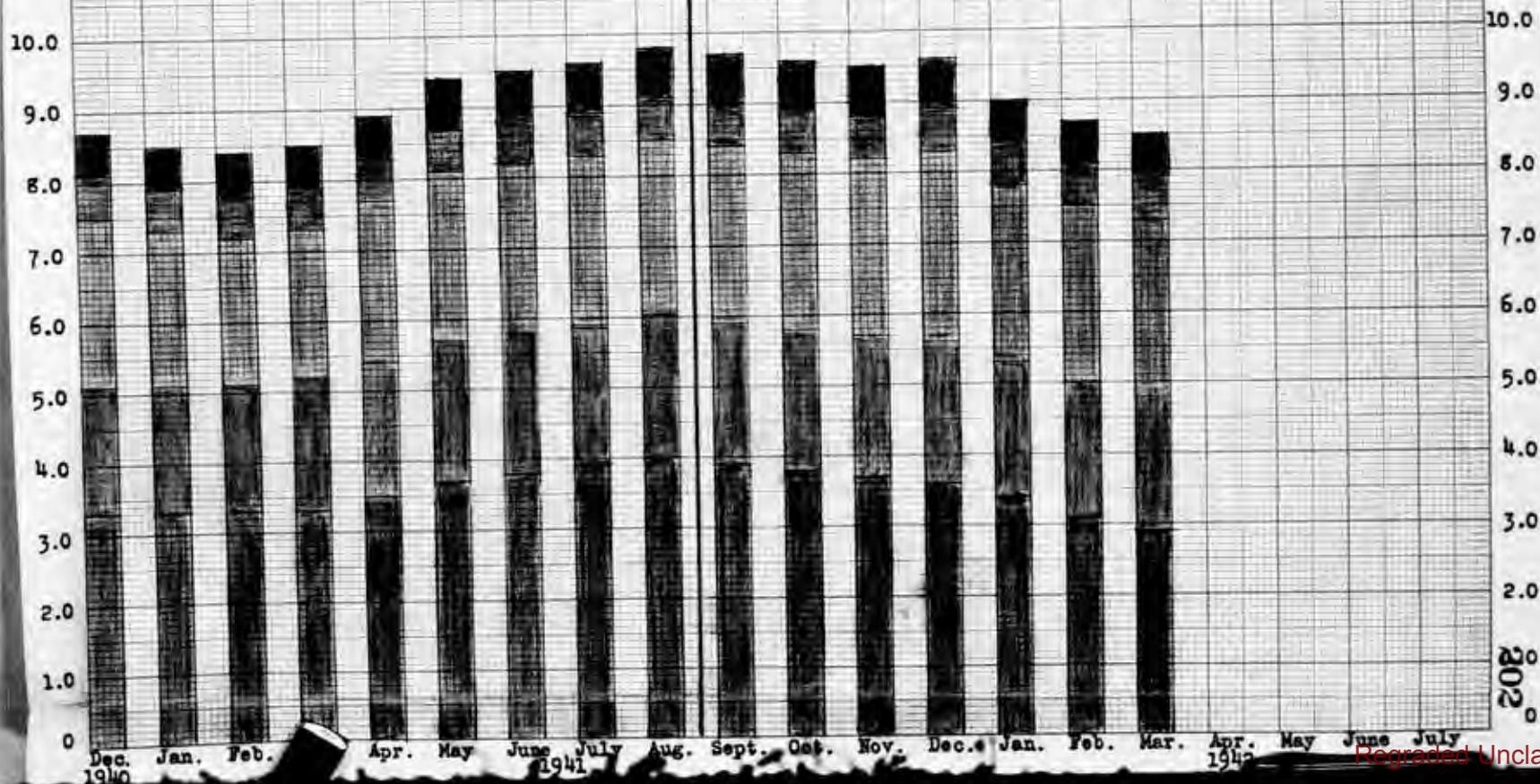
Estimated Amount of Consumer Credit Outstanding at the End of Each Month

(Billions of dollars)

(Billions of dollars)

Regulation of consumer credit effective →

- Commercial Bank Accommodation Loans
- Service Credit (Doctors' bills, etc.)
- Charge Account Credit
- Cash Installment Credit (Small loans, etc.)
- Retail Installment Credit



C
O
P
Y

ALH

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

Sydney

Dated April 14, 1942

Rec'd 3:43 a.m.

Secretary of State,
Washington.

219, April 14, noon.

Referring to Department's telegram no. 100,
March 14, aggregate amount Treasury checks received
from Commonwealth Bank last night United States
640,489.42.

PALMER

NK

Copy:bj:4-14-42

Treasury Department 204
Division of Monetary Research

April 15 42
Date.....19

To: Miss Chauncey

I think the Secretary should
glance at this.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 14, 1942

TO Mr. White
FROM Mr. Friedman
Subject: Digest of cable from Adler dated April 12, 1942.

1. As a result of meeting held with Vice Ministers of Finance, Board decided to recommend lowering of exchange rate to 5¢. K. P. Chen favored reduction to 4¢ but members of Ministry of Finance opposed.
2. Adler raised advisability of the 4¢ rate with Dr. Kung but Kung replied that he favored 5¢ rate.
3. Statistics given indicating the increasing gravity of the economic conditions in Free China.
4. It is believed in Chungking that bond issue backed by United States currency will have similar disappointing history because of lack of United States guarantee.

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China.

DATE: April 12, 1942, midnight.

NO.: 396.

The following message is for Mr. A. Manual Fox and the Secretary of the Treasury from Mr. Adler.

TF 27.

1. This morning the Board's Chairman and Secretary saw Y. C. Koo and Tai of Ministry of Finance, the Minister of Finance not attending the meeting. The gravity of the economic and financial situation was emphasized by Zabo. He admitted quite frankly that it was a desperate position. In order to insure sales of savings he feels that reduction of the exchange rate to five cents is imperative. In order to avoid need for subsequent reduction or reductions the Chairman indicated that perhaps it would be better to go at once to a four cent rate if reduction at the present time is necessary. Tai insisted that the reduction in the exchange rate to five cents was enough. He and Koo pledged that the Board would not be asked to lower the rate later if sales of bonds and saving certificates move slowly. The understanding at the end of the meeting was that we were to send a formal letter to the Board embodying recommendation to lower rate to five cents. All members of the Board agreed to act favorably except Hai.

2. Since I knew your feelings on the matter I brought up the advisability of a four cent rate with Dr. Kung in the afternoon. Dr. Kung told me that the Generalissimo and many other people regard the existing rate as too low. Were it not for the fact that a four cent rate would weaken confidence in fapi and that dealers and merchants would immediately raise their prices in proportion to the rate change, Dr. Kung would be in favor of a four cent rate because it would make his Government's U. S. dollars go further. However, he felt that a five cent rate was sufficient. I pointed out the disadvantages of lowering the rate to five cents at the present time and having to lower it again later. He replied that he thought this would be unnecessary. He pointed out that it is intended to give discount on U. S. dollar-backed bond flotation in form of a six cent rate which, in order to put a premium on early buying, would gradually be lowered to par.

3. I called on O. K. Yui and Y. C. Koo almost immediately afterwards. Again the seriousness of the economic

economic situation was stressed by Zabo. At the end of December the circulation of fapi was \$15,000,000,000 and at the end of February it had risen to 16,500,000,000. In the same period the volume of fapi in circulation plus the deposits of government banks increased from \$23,000,000,000 to just under 26,000,000,000. The value of the fapi in circulation plus government bank deposits at the end of February was only one-fourth of that in July 1937 except for the price changes. (Although it may safely be assumed that then more than half the fapi and government bank deposits could be accounted for in what is now occupied China, now the proportion is to be reversed. Since then, on the other hand, the economic activity in Free China has increased significantly. Even on the assumption that these factors are cancelled out by each other, the drop in value mentioned above is dangerous.) Koo continued that the wholesale price index in Chungking which rose from 2700 at the end of December to 3,000 at the end of February, in March suddenly soared to 3,700. (The index is that of the Institute of Wartime Economic Research with the period January-June 1937 equalling 100). He also said that the reduction of the rate of exchange would stimulate the sale of saving certificates which had been insignificant. Again I brought up the point that a larger reduction now would be better than to tamper with the rate of exchange again later in order to force sales of these certificates. Koo again agreed that the latter should not be done. This, however, he did in a half-hearted way, and in order to justify half-heartedness he even invoked purchasing power parity.

Competent observers here think that too much confidence cannot be placed in "pledge" that further reductions in order to stimulate sales of government securities will not be resorted to should there be any unfavorable developments. Then the Board would be in a weak position since it would be a very convenient alibi and scapegoat if it were reluctant to permit the rate to be lowered every time the Ministry of Finance insisted that the sales campaign of securities would benefit by doing so.

4. Although the Ministry of Finance will not admit it, one factor causing the failure of the campaign for the sale of savings certificates is the fact that many possible investors are inclined to think that when the certificates fall due the government may not pay in American currency and these potential investors are disappointed that there is no direct guarantee of the certificates by the Treasury of the United States. It may be that the Finance Ministry missed an opportunity when it did not bring in a semi-foreign like (?) in which the potential investors would no doubt feel more confident. It is believed that the bond issue backed by United States currency will have a very similar history.

GAUSS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 14, 1942

TO Mr. White
FROM Mr. Hoflich
Subject: British Tax System - Increased Criticism and Predictions of Changes.

Cable advice from Casaday indicates increased criticism of the British tax system, by the press, and by both Conservative and Labor members of Parliament. There is also considerable speculation in regard to the forthcoming Budget, and predictions of tax changes. Casaday's report may be summarized as follows:

1. It is widely believed that the Chancellor of the Exchequer will announce the following changes, in his Budget statement about to be made:

- a. Modifications in the excess profits tax, probably a reduction in the rate.
- b. The separate assessment of married women's earned incomes.
- c. The assessment of workers' income taxes on the basis of current earnings instead of the present deductions based on wages in the previous assessment period.

It should be noted that both Laborites and Conservatives favor the latter two changes.

2. There seems to be considerable opinion, in the press, and elsewhere, favoring the following additional changes in the income tax on wages in order (it is argued) to increase the incentive for an all-out war effort:

- a. Raise the minimum weekly wage remaining after the deduction of the income tax from \$7.50 to \$9.70, for single men, with proportionate increases for married men.
- b. Remove or reduce the tax on overtime.
- c. Give the workers certificates or some other tangible evidence of the promised post-war rebate on income taxes.

3. Some commentators urge and predict increased excises on luxury goods, to make up for possible reductions in revenue which would result from suggested changes in the excess profits and income taxes.

(Cable No. 1769, London, April 11, 1942)

AS

PLAIN

London

Dated April 11, 1942

Rec'd 11:45 a.m.

Secretary of State,
Washington.

1709, Eleventh.

FOR THE SECRETARY OF THE TREASURY FROM CASADAY.

Embassy's telegrams number 1401, March 24 and number 1408, March 27, also Embassy's telegrams on excess profits tax forwarded in November and December 1941.

Criticism of various aspects of the present taxation system and suggestion and speculation with regard to the forthcoming budget have further increased in the past few days and have come not only from the press but from both Conservative and Labor members of Parliament and from recently published reports of the Select Committee on National Expenditure.

It may be significant that in spite of the firm attitude thus far evidenced by the Government, several commentators mostly of the press are not only suggesting changes but predicting them. This is especially

-2- #1769, Eleventh, from London

especially true with respect to the income tax on workers' wages.

For example today's FINANCIAL NEWS states: "Meanwhile the usual speculation proceeds, with the difference that many prophets are this time even surer of themselves than usual.

It is not often that the Labour Party holds identical views with those of the 1932 committee on matters of taxation but when such an unusual situation does arise the Chancellor of the Exchequer can hardly afford to disregard these views. For these reasons it is fairly safe to forecast a decision in favour of the separate assessment of married women's earned incomes and a radical change in the method of assessment of income tax on wages.

As for a reduction in E.P.T. it would be wishful thinking to regard this as more than a possibility."

The SUNDAY EXPRESS for April 5 states that the City expects: "1. Assessment of workers' income tax on current pay packets. 2. Separate tax assessment for wives who go out to work. 3. Modifications of excess profits tax".

Criticisms and suggestions regarding the excess profits

-3- #1769, Eleventh, from London

profits tax have already been covered in reports sent to the Department. Suggestions with respect to the income tax include the following: 1. That the minimum weekly pay packet remaining after deduction of income tax be raised above the present level of one pound seventeen shillings and six pence (for single men) to two pounds eight shillings and six pence. Proportionate increases are asked for married men. 2. That income tax on overtime be removed or reduced to create greater incentive for "marginal" effort. 3. That income tax be assessed currently rather than half-yearly as at present. 4. That income tax on working wives be assessed separately. 5. That workers be given certificates or some other tangible evidence of the promised post-war rebate on present income taxes.

All of these suggestions are advanced on the ground that the present system is preventing an all-out war effort.

It may be of interest that some commentators urge and predict increases in excises on luxury goods. In part this move is urged as a means of making up for the possible reductions of revenue which would result

-4- #1769, Eleventh, from London

result from the suggested changes in income tax and E.P.T.

The clippings and the reports of the Select Committee on National Expenditure herein referred to are being forwarded by airmail. Reference is also made to the Hansard report of the production debate of March 24 (especially columns 1874, 1900 and 1937 to 1939) and March 25 (columns 2054, 2107 and 2113) these were forwarded by air pouch on March 31 under cover of a letter to the Secretary of the Treasury dated March 26. It is worth noting that in the last reference given above Lyttleton said that he certainly proposed to discuss the whole matter with the Chancellor of the Exchequer.

It is assumed of course that those suggesting or predicting taxation changes are quite ignorant of the actual provisions of the forthcoming budget. In view of the foregoing however it seems probable that if no changes are made considerable dissatisfaction and agitation will continue.

The budget speech scheduled for next week and the press reaction thereto will be reported as promptly as possible.

MATTHEWS

MPD

DM

GRAY

Bombay

Dated April 14, 1942

Rec'd 10:49 a.m.

Secretary of State,
Washington.

263, April 14, 5 p.m.

Department's 68 to Calcutta.

Total amount of United States Treasury checks
cashed by National City Bank of New York at Bombay
and delivered to this consulate is \$812.58.

INFORM TREASURY.

DONOVAN

BB

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FD

April 14, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 181, dated April 14, 1942, from the American Commissioner, New Delhi, India, asking that Ransom be left in charge of Bombay office of the National City Bank of New York.

Enclosure:

From Commissioner, New Delhi,
no. 181, April 14, 1942.

eh:copy
4-14-42

PD
This telegram must be
paraphrased before be-
ing communicated to
anyone other than a
Governmental agency. (BR)

New Delhi

Dated April 14, 1942

Rec'd 6:17 a.m.

Secretary of State,
Washington.

RUSH.

181, April 14, 10 a.m.

The Governor of the Reserve Bank of India
through the Consul at Bombay and the finance member
of the Government of India through me have requested
that ^{the} National City Bank of New York leave Ransom in
charge of the office at Bombay rather than replacing
him by Babb stating that on account of the extreme
importance of matters being handled between the two
banks, the presence of the more senior man is highly
desirable.

JOHNSON

NK

EJ

GRAY

Belfast

Dated April 14, 1942

Rec'd 11:08 a.m.

Secretary of State,
Washington.

7, April 14, 4 p.m.

Department's 11, April 8, noon.

FOLLOWING FOR TREASURY.

"Northern Bank Limited, Belfast accepts procedure outlined which will become effective immediately.

Correspondents of the Northern Bank Limited in New York are Brown Brothers, Harriman and Company, Fifty-nine Wall Street."

BUHRMAN

EDL

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April 14, 1942

TO: Mr. Livesey

FROM: D. W. Bell

Will you please send the following cable to the American Embassy, Ankara, Turkey, as reply to its No. 168, March 16.

"From Treasury.

Your 168 of March 16 on increasing discount at which United States currency is selling in Near and Middle East. Under the program of economic warfare being pursued by this government, every effort is being made to minimize the economic benefits accruing to the enemy as the result of conquest or economic penetration. This policy was followed when the United States promptly blocked or 'froze' all Norwegian and Danish assets in the United States upon their occupation by Germany in April, 1940. This prevented the Axis from using such assets in its war economy. Thereafter, as other countries were occupied by, or submitted to, the Axis, this country blocked the assets of the conquered areas. On June 14, 1941, the United States blocked the assets of every country in continental Europe except Turkey. German and Italian assets were blocked at this time and also those of Switzerland, Spain, Portugal and Sweden so that those neutrals might not be employed as cloaks for the Axis. While Russian assets were also blocked at the same time, they were freed when Germany attacked Russia. Japanese assets were blocked July 26, 1941, and at the same time Chinese assets were blocked at the request of China so that Japan might not use occupied China for cloaking purposes and the Chinese Government might gain maximum advantages from Chinese assets in the United States.

As early as June 6, 1940, a strict control was imposed on all securities entering the United States so that the Axis could not liquidate looted securities in our markets. From time to time this control has been tightened by various additional measures.

Obviously it is not feasible to outline the complete scope and application of this policy. The foregoing is merely illustrative.

The problem of minimizing the benefits to the Axis from the large amount of United States currency held in occupied countries is particularly difficult and important. Every time that the enemy acquires goods or services from non-occupied or neutral areas without having to deliver goods or services, there is a net increase to the enemy economy and war potential. Recognizing that the enemy does have many ways of

compelling neutrals to furnish goods and services on credit, still there are limitations on this technique beyond which the neutrals' economy may collapse — preventing further effective aid to the enemy.

Obviously the enemy can ill afford to pay the neutrals in goods and services without injury to this war effort. From their point of view it is preferable to effect payment in, for instance, United States currency — which can be taken from the occupied areas. The neutral will accept United States currency as long as such currency can be profitably employed in the purchase of goods and services in other parts of the world. As you indicate in your 168, there are substantial amounts of United States currency 'working its way down from central and eastern Europe through the Balkans to the Near and Middle East'. The same is true with respect to Switzerland, Spain and Portugal.

It is in our interest to see that United States currency is a drag on the market in these neutral countries. The more we can reduce its exchange value the less the enemy can obtain in the way of goods and services through this means of payment. Accordingly, this government is encouraging this reduction in value. Thus, for example, on March 13, 1942, the United States Treasury imposed import restrictions on all currency brought into the United States from any part of Europe except Turkey. Under this regulation any such currency will be impounded. Further measures of this type are being studied.

Your reference to the decline in the prestige of the United States arising out of the steadily increasing discount at which United States currency is selling, is of course an important consideration. The enemy no doubt exploits the natural fears and prejudices of these people to encourage the acceptance of the value of United States currency as a barometer of the war. For these reasons it is important that it become known that the depreciation in United States currency in this area is a definite policy of this government and that the reasons underlying the policy be disseminated through appropriate channels. In this connection, compare the British policy of voiding all Sterling currency in countries outside the Sterling Area. Particular attention should be called to the fact that the cable transfer rate of United States dollars represents a much superior index to the prestige of the United States dollar in neutral countries.

We should appreciate receiving your views as to the effectiveness of an educational program of this character and suggestions as to how to make it most effective in the Near and Middle East.

You refer to the fact that substantial amounts of United States currency are being brought to the Near and Middle East by the United States Government and representatives of all services who are arriving in ever-increasing numbers, and that the discount on such currency works a hardship in such cases.

Certain steps have been taken in some areas, and a blanket procedure is being developed now for the Sterling Area, in order to secure a favorable rate for United States currency properly in the possession of authorized government officials. This program contemplates the establishing of a dollar credit to the account of banks in each area against telegraphic advice that the currency has been mutilated and delivered to designated American consular officers. Authority to use such facilities would be limited to officers and paymasters charged with the duty of preventing the use of this procedure where the United States currency was acquired locally by American officers or employees.

In the case of Turkey, however, it is not clear at this time that a procedure of this type is necessary or desirable. American officials in Turkey should be encouraged to cable their respective departments their local currency requirements. Arrangements can then be made to advance dollar credits through the New York correspondent of their local banking connection.

AFL:mah
4/8/42

copy:kma:4/14/42

TREASURY DEPARTMENT

220

INTER-OFFICE COMMUNICATION

DATE April 14, 1942

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£71,000
Purchased from commercial concerns	£33,000

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

The Cuban peso was offered at a premium of 5/32% as compared with 3/32%, the rate that has prevailed so far this month.

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

Canadian dollar	13% discount
Argentine peso (free)	.2373
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2830

There were no transactions of gold consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped \$187,000 in gold from Mexico to the Federal for its account, for sale to the New York Assay Office.

No new gold engagements were reported.

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

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

We made no purchases of silver today.

- 2 -

The report of April 8 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$2,342,000, a decrease of \$212,000 in the short position since April 1. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>April 1</u>	<u>Short Position</u> <u>April 8</u>	<u>Change in</u> <u>Short Position *</u>
England	\$ 618,000 (Long)	\$ 905,000 (Long)	- \$ 287,000
Europe	2,411,000	2,485,000	+ 74,000
Canada	1,652,000 (Long)	1,674,000 (Long)	- 22,000
Latin America	70,000 (Long)	25,000 (Long)	+ 45,000
Japan	160,000	160,000	-
Other Asia	2,296,000	2,288,000	- 8,000
All others	<u>27,000</u>	<u>13,000</u>	<u>- 14,000</u>
Total	\$2,554,000	\$2,342,000	- \$ 212,000

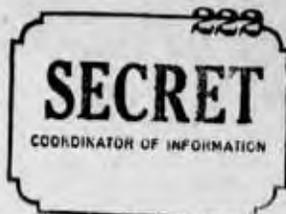
* Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign (-) indicates decrease in short position, or increase in long position.

CONFIDENTIAL





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



April 14, 1942

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

Dear Henry:

The attached is the report of the British
Home Intelligence for the week ending April 6, 1942

Sincerely,

Bill
William J. Donovan

SECRET

Slight rise in public spirits which was mentioned in the last report appears to be maintained. So does the mood of expectancy which still is ill-defined. There is "an air of suspense, of waiting for something to happen". Lack of new disasters and indications of British vigor and initiative contribute. However, the public will need many more signs that Britain is passing from an attitude of defense to the much desired aggressive spirit before it can be described again as 'on its toes'".

The general trend of public thought is toward attack rather than defense. The St. Nazaire attack, the recent heavy raids on France and Germany and the successful passage of the Murmansk convoy have had the effect of a tonic but the public still reacts to them as spectators rather than as participants. According to one RIO: "Private considerations and the lure of personal gains still weigh more with many persons than does the cause". Lack of interest in the war and reluctance to talk about it are mentioned by 7 RIO's. "The public appears to be concentrating on what they can do for themselves". They are preoccupied with domestic or home affairs such as civil defense or "digging for victory". The general tone of most reports suggested that there still exists a "sense of frustration which, though no longer at boiling point, exists as a background for discontent".

On India, there is very great admiration for Cripps, this being "more of a compliment to his personality than optimism concerning the result of his mission". There are fears that India will go the way of Burma. In some quarters the government is criticized for "putting the plan forward too late". "We should have won India by an offer of Dominion Status immediately following the Atlantic charter".

United States. About the USA there is little comment but satisfaction is reported that "they are doing something at last". Postal censorship confirms some belief in USA support "as soon as they get into their stride". Complaints come from the same source on the behavior of U.S. troops now in England. It is alleged that they "all talk", and resentment is expressed at their tone: "It is about time we came over to win the war for you". It is felt that they are "throwing their weight around".

Russia. Sympathy and admiration continue as before for Russia, but anxiety is reported again by 5 RIO's at the apparent slowing down of the progress and prospects of the Red Army.

News presentation and broadcasting. There exists "annoyance" at expressions such as "strategic withdrawal" and "straightening of lives" in Burma. Listeners research report No. 78 discloses that in the last few weeks the level of listening to news bulletins has decreased by 20 per cent.

Post-war conditions. This week 3 Ministry of Information speakers and 4 RIO's refer to interest of the public in post-war conditions. People "demand to be informed what sort of post-war society our rulers contemplate as a result of victory". Two of the RIO's refer to the belief that "production would be improved if something could be done to convince workers that post-war conditions would be better than those which they now enjoy". "A definite statement by the government, - preferably the Prime Minister -, on conditions in this country after the war would do a great deal to improve the war effort".

Food. There is little complaining about it but growing demand for "equality in distribution" and strong feeling

that "luxury foods should not be at the disposal of only the wealthy". The abolition of white bread was taken with very little complaint.

Black markets and anti-semitism. From Midland and London areas and from police duty room reports references to an increase in anti-semitism, said to be due principally to "the frequent occurrences of Jewish names in news reports of black market cases". Other reasons cited for the increase or prevalence of anti-semitism are the "many current stories of Jewish evasion of duties and regulations, and the "apparent unwillingness to take action, on the part of Jewish leaders".

COORDINATOR OF INFORMATION
WASHINGTON, D. C.

April 14, 1942

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



Dear Henry:

The attached is from the German
Directive of the British Political
Warfare Executive, and is dated April
10, 1942.

Sincerely,

Bill
William J. Donovan

Attachment

1. Appreciation of German home situation

a. German attention is still almost exclusively concentrated on the Russian front and concerns at home, although RAF offensive rapidly is becoming a source of apprehension. There is a feeling of anxiety over contacts between civilians and soldiers. The soldiers from the front are easily disillusioned by the conditions they find while on leave. Many civilians are shocked by their attitude. The home front is reminded daily that it must live up to the soldiers. This situation is explanation of why the Deutschlandsender is more truthful about Russia in its home broadcasts than those to Europe.

b. The second line for the home front is a building up of confidence in the Spring offensive. This will be launched along the whole front from Murmansk to Sebastopol, with new strategy, new troops and new weapons.

c. The third main theme is successes of the U-boats.

d. There is evidence of a strong skepticism of alleged victories in the East, despite the buoyant tone of German propaganda. The Germans are only interested in a final 1942 victory over Russia.

e. Omissions in home news: Representation of Japanese at the Vatican; no reference whatsoever to Sauckel since his appointment; Laval negotiations; full stop on recalling that some of the territory occupied by Japan was at one time German-New Guinea, Bismark Archipelago, etc.

2. Policy and Strategy

a. India. Do not bore listeners by giving too great length or prominence to this, for Germans, minor topic.

SECRET
OF INFORMATION

- 2 -

b. Russia. Use to the fullest all German self-commitments to Spring counter-offensive along the whole front; use again the 38 divisions scheduled for re-equipment and rest kept this winter at the front; revive the German admissions of last November of the underestimate of Russia and its strength. Stress the industrial strength of Russia beyond the Urals. Call attention to the predicament of the three Italian divisions, Celere, Vesuvio and Torino, on the Russian front and to the fourth division which is now enroute to the front.

c. Mediterranean. Maintain the diversion theme. Malta is concentrating on itself full force of fleet of bombers sufficient to blitz London. If Rommel moves, the attack should be played up as an attempt to break through the Suez.

d. Far East. Straight news, no military surveys.

e. Northern Route. Can again be run hard. Also the inactivity of the Scheer, Tirpitz and Hipper. For seven weeks the Scharnhorst and Gneisenau have been under repair. After six weeks out of action the Prince Eugen is still in Trondheim. The Murmansk front is becoming a heavy German commitment. Failed on account of German inability to keep up sea communications for Dietl's troops. Heavy shipping losses by Germany due to action by Russian and British submarines and aircraft.

f. Do not place too much emphasis on American claims of U-boats sunk in the Atlantic or Japanese ships sunk in the Pacific.

g. Air. Give care to quick home releases of the effectiveness of raids, which should never be used for

- 3 -

Germany without a further check. Continue to comment that Gatha, Magdeburg, Sluttgart and Wuerzburg are the same flying distance as Lubeck. Stress the deliberate strategy of pummelling one area till flak is moved in and then striking elsewhere, when reporting raids on France. Production strength of British aircraft is shown by the fact that 90% of home-based aircraft is British made, more than 80% of all aircraft in RAF, including overseas, and 100% of night bombers are British made.

3. Features and Talks.

a. As in 1917, Germans are feeling the stress. When giving explanation for ration cuts, never attribute them to the blockade but always to:

1. The call up of German peasants due to shortage of manpower.

2. The passive resistance of occupied territories which should export.

3. The call up of German Balkan allies such as Roumania.

b. Britain's part in a single Anglo-Russian strategy.

COORDINATOR OF INFORMATION
WASHINGTON, D. C.

April 14, 1942

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



Dear Henry:

The attached is from the most
recent British Ministry of Economic
Warfare propaganda survey.

Sincerely,

Bill
William J. Donovan

Attachment

Additional evidence of Axis Production difficulties are:

(a) Funk's acknowledgement of using costs in statements to shareholders Reichsbank meeting that while production rose in 1941, incomes increased even more.

(b) 50% decrease in Italian war production due:

1. Reduction in expenditure from 7,000,000,000 Lire per month to 5,000,000,000.
2. Inefficient wage and price stops.
3. Most efficient labor moved to Germany.

More drastic black market regulations in France permitting 10 years imprisonment, 10,000,000 francs.

Greece's financial load is eased, occupation costs removed due to the fact that Greece is milked dry.

Labor drive extended to Belgium, Holland principally aimed at unemployed. In Belgium, wages deliberately are kept low in comparison with wages paid to Belgian workers in Germany. VERWILGHEN, Secretary General, Ministry of Labor, resigned as a protest against German labor measure.

For the first time on the continent, fruit and vegetables are to be rationed by Belgium.

SECRET
OFFICE OF INFORMATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 14, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Summary of Intelligence Reports

Russo-Japanese Relations

According to a private report from Switzerland, forwarded by the British Political Warfare Executive, the Japanese Ambassador in Berlin, General Oshima, is making the rounds of the Balkans. Oshima is attempting to persuade the Balkan countries to participate more actively in the war against Russia. In order to convince them of the coming victory, he is stating that Japan will attack Russia at the moment the German offensive is launched.

(British Political Warfare Executive Directive,
April 13, 1942)

Italy

The Italians have recently discontinued their propaganda against Russia, probably because of unfavorable reaction among the industrial workers, and because of difficulties in the way of sending more troops to Russia.

The grain situation has grown worse.

Italian propaganda now lays emphasis on a "bright future" in place of the recent campaign of intimidation and pessimism.

(British Political Warfare Executive Directive,
April 13, 1942)

Use of American Planes

During the day of April 12, nine Boston bombers (Douglas A-20) escorted by 21 squadrons of fighters, (or 252 planes) successfully attacked the railway center at Hazebrouck, France. German fighters were encountered in strength. In the fighting, four German fighters were certainly destroyed, four more were probably destroyed, and ten damaged. Fifteen Spitfires were lost and one Boston.

(This is the first mention of the use of Bostons by the British as daylight bombers, the use for which they are designed. Last year, the British used the Bostons as "Havoc" night fighters over England, or as "Intruders", i. e., used to sit over German airdromes at night and shoot down the German bombers as they came home.)

On April 10, Japanese fighters machine-gunned Loiwing airdrome in Burma. Five AVG Tomahawks were damaged on the ground. Hurricanes and AVG Tomahawks shot down seven Japanese fighters. Two Hurricanes were lost.

(U.K. Operations Report, April 13, 1942)

British Planes in R.A.F.

More than 80 percent of all the aircraft in the Royal Air Force, including the overseas contingents, are British made. Ninety percent of the planes based on England and 100 percent of the night bombers were built in the United Kingdom.

(U.K. Political Warfare Executive Directive,
April 10, 1942)

German Home Situation

The government is showing a feeling of anxiety over contacts between civilians and soldiers. The soldiers from the front are easily disillusioned by the conditions they find while on leave. Many civilians are shocked by their attitude. Because of this situation, the German stations are more truthful about Russia in their home broadcasts than in those to other countries.

(U.K. Political Warfare Executive Directive,
April 10, 1942)

Russia

Colonel Donovan's office reports that "according to what purports to be an official tabulation, 650,000 people starved to death during the two winter months in Leningrad alone." Rations in Moscow are also supposed to be low. "The result seems to have been a slight slump in the morale of the Capital." (This report surpasses the claims of the Nazi propagandists.)

(C.O.I., "The War This Week," April 2 - 9, 1942)

April 15, 1942
9:05 a.m.

LIMITATION OF PROFITS

Present:

Mr. Nelson
Mr. Patterson
Mr. Sullivan
Mr. Forrestal
Mr. Helvering
Admiral Land
Mr. Paul
Mr. Foley
Mr. Blough
Mr. Marbury
Mr. Anderson

H.M.JR: It is nine o'clock. Let's go.

MR. PATTERSON: We are apprehensive that a pre-audit at this time, even if concluded in time to be of value, might have a boomerang effect. It might, particularly, if we took the twelve so-called ripest cases we have, where we thought that prices were the highest, in comparison with the probable cost of producing the stuff - might have an effect of accelerating the movement in commerce for profit limitation rather than dampening it. It is a gamble at best, and we think that a gamble might turn out against us. We would like very much to have the Secretary of the Treasury confer with Senator George and Congressman Doughton, and also with Senator McKellar and Barkley, and Cannon, present what Mr. Paul has already told the Vinson Committee; that the best measure of controlling profits, we believe, that at least the last stand in controlling profits, is by the excess profits tax law; that we have doubts as to the wisdom of engaging in any pre-audit. I think if we did we would be committed certainly to tell them the outcome, the effect

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of it, possibly to publicize the outcome, and we would rather try to get our house in order on these top cases, we will say, the top layer, as we are doing, on a re-adjusted and renegotiated basis, with the concerns themselves, which is going forward in a fairly good way. Browning Incorporated has got a board assembled there.

MR. NELSON: Yes, we worked with him on that board.

MR. PATTERSON: Browning is giving practically his entire time to it.

H.M.JR: Well, Bob, so there will be no misunderstanding, we asked Nelson for a list of names which he gave us.

(Mr. Anderson, Admiral Land, and Mr. Helvering entered the conference.)

H.M.JR: For my own satisfaction, whether I do anything on this or not, we are going ahead with these audits, forty odd companies that you gave us, you see, and the instruction to my boys is, "Have the answer Tuesday," but I wouldn't be willing to go up on the Hill and say anything to these people unless I could say to them, "Well, I am going to give you a visual demonstration as to what this bill will do." Now, I am not going to put my neck out with the President or with the Hill any further than it is now, on this tax thing, unless I can say, "Gentlemen, we will come up there and show you what this proposal on excess profits will do to these companies." But if that is going to scare you, then I would rather not do anything. Again, to be perfectly frank, I don't want you to say I pulled a fast one on you. I may do it anyway in connection with our bill in order to try to prove to them that this is a good tax bill. You see, I mean, I may do it anyway, may have to do it. Paul may have to do it. So I don't want you to say, "Well, Morgenthau used this and then went ahead on his own." I want you to know just where we stand. I don't know any better evidence, if it is good evidence, than if when we get through we are not going to get

- 3 -

the excess profits then Paul has got to get busy and tighten it up.

MR. PATTERSON: Of course, the cases selected, I take it, will not be typical cases?

H.M.JR: You have got to ask Mr. Nelson.

MR. PATTERSON: They would be top cases, I should think.

MR. NELSON: We went down through, tried to pick a fairly typical - we put the aircraft people in there. They will be typical of one branch. We have got such people as the Standard Oil Company and others. They are just representatives of parts of business, a lot of business, small and large. We tried to pick a very representative group. I thought, Bob, and I think it would make a great impression, have just the opposite effect, if when these come in on pre-audit, you immediately got them in and cut them down. That is what was done in '41. You have cut them down for '42, and it is a visual demonstration of the combination of the two methods, which I think is right, the administrative method by cutting it down where you know about it, and then the tax method to mop up what you don't get. I think that is the logical way.

MR. PATTERSON: Yes, but of course these figures will show the situation without any renegotiation effort.

MR. NELSON: As of '41, Bob. These fellows were just getting started in '41.

MR. PATTERSON: It will show some large profits, no doubt of that. It will show some large profits, but it will not show any effect of a renegotiation effort, and in that way, and I think probably the cases will be top cases. I haven't seen the company's list of correspondence. I don't know what it is, but my

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idea would be that it would not be a sampling all the way down and up the line. I don't believe so.

H.M.JR: Have you got the list?

MR. SULLIVAN: I sent it over. The file I got from Mr. Nelson, without waiting to have it copied, immediately sent to Mr. Mooney, who immediately got on the phone and instructions were given to every agent in charge west of the Mississippi, before the close of business yesterday. There is a copy on the way over here now, and I will ask my office to send it in.

MR. PATTERSON: How can you possibly complete an audit by Tuesday?

MR. PAUL: Couldn't have it all.

MR. SULLIVAN: You can't have an audit on the '41 profits. They will have to take the word that is given them by the corporation auditors.

MR. BLOUGH: This is definitely not a pre-audit because it is all what has happened in the past, 1941.

H.M.JR: We have to take the word of the president of the company.

MR. PATTERSON: It would take us months to do that.

H.M.JR: It is the word of the president of the company, or the treasurer of the company, or the comptroller of the company.

MR. BLOUGH: This is really just getting advance information on 1941. It is not an audit.

MR. NELSON: You will have that in a month or two anyway, won't you?

MR. BLOUGH: Except for salary information and so on.

H.M.JR: The salary information.

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Bob, I am not going to do a thing unless you fellows definitely ask us to. I am not going to go up on the Hill because I have got nothing to sell them.

MR. PATTERSON: Got the same thing to sell them that we had two weeks ago. You have got the same sales talk that Paul had before the Vinson Committee which was good.

H.M.JR: But until I see what this bill does to the company, what the profits and the salaries are, I won't stick my neck out.

I said to the Army, "Should we wait for the Navy?" They said, "Hell no, let's keep going."

(Mr. Forrestal entered the conference.)

MR. PAUL: I ran into Senator O'Mahoney last night and he asked me if I was working on this, and he said that something had to be done by Thursday. What did he mean by that?

MR. PATTERSON: Conference committee meets.

H.M.JR: Bob, tell Forrestal what you said, and see if he agrees with you.

MR. PATTERSON: I said that I questioned whether a so-called pre-audit which can be nothing more than a receiving of the company's own statement by Tuesday, because a real pre-audit would take months - I doubted the benefit for the reason that a short list of companies is likely to be not a fair sampling of all contracts, and would probably reveal profits that might be deemed by a great many people excessive, and that the discussion of those cases with the conference committee or any other group in Congress would be more likely to lead to demands for profit limitation statutes than to soothe them.

MR. FORRESTAL: You mean, even after the application of the taxes?

MR. PATTERSON: Yes. Moreover, it would show a

situation where the efforts of the Army and Navy, on renegotiating contracts and fixing a lower unit cost, would not have taken effect at all.

MR. FORRESTAL: That is right.

MR. PATTERSON: For that reason I questioned whether any benefit in our present impasse about the riders that have been tacked onto this appropriation bill would be brought about. However, I do urge that the Secretary of the Treasury see the leaders, Senator George, Representative Doughton, Senator McKellar, Representative McCormack, leaders, and reinforce the position stated by Mr. Paul before the Vinson Committee as to the preference that the Treasury Department would have to handle the matter on an excess profits tax basis rather than on a profit limitation basis.

H.M.JR: I won't do it, Bob, I won't do it on that basis, I am sorry. I mean, I won't do it unless I can give them an actual--

MR. PAUL: Of course, my neck is out already.

H.M.JR: Excuse me, I just want to explain, I mean, I won't do it unless I can go up and say, "Here is a list of companies given to me by Mr. Nelson. We have looked at them, we have taken the companies' word," and that this is what the proposed bill will do. Unless I can do that, give them an actual--

MR. FORRESTAL: What is the harm, Bob, in getting that list of companies and see what the result is after you apply? I certainly know if you apply that rule to the General Electric or Bethlehem Steel, for last year, you are going to cut the hell out of their showing.

MR. NELSON: I think you will in '41, particularly. Now, '42, without renegotiation, would be bad, but '41, I think, will show the other way.

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MR. PATTERSON: Of course, '41 - these companies for the calendar year '41, except for the aircraft, Dupont, Sperry, and some of those did not have an exclusively Army and Navy business. A great deal of their business was straight civilian business.

MR. PAUL: Of course, as Mr. Helvering pointed out yesterday, that makes for a complication.

MR. SULLIVAN: We have asked for a break-down between war contracts and the rest of the business.

MR. PATTERSON: Of course, during 1941 the great bulk of their (indicating companies on paper) business was straight normal commercial business. Their profits, as shown are on an annual basis for the calendar year 1941, would not be particularly helpful as to whether or not you should have profit limitations in dealings with the Government. The aircraft companies, of course those are instances.

MR. NELSON: We have tried to pick both kinds. You see Baldwin Locomotive would be very largely with the Government. Bendix, Aviation, Sperry, General Electric would be over half - Savage Arms--

MR. PATTERSON: For '41, would they be over half?

MR. NELSON: I think so. Western Cartridge Company - we tried to pick companies that we thought would be representative.

MR. PATTERSON: You will have to analyze the list a great deal, and no hasty conclusions could be drawn from it. The Western Cartridge Company, almost all their business is with us, is on a cost-plus fixed-fee basis. They manage plants. Nine-tenths of their business is on the basis of the running of the St. Louis Ordnance Plant.

MR. FORRESTAL: What is the harm - I don't think you can visualize what this means until you see the figures

and see the application of the tax, then it begins to--

H.M.JR: That is the point. Then you know.

MR. FORRESTAL: If it doesn't look so hot, then you scrap it don't you?

H.M.JR: No.

MR. PATTERSON: You are gone by the time you get to that stage.

H.M.JR: If it doesn't look so hot, we will revise our tax bill, and it is another thing, it is an answer to all of these long-haired boys with flowing neckties around town that think they know how to run this show, whether the Treasury knows its job or doesn't, and I would like to find out. Maybe we don't. Maybe we don't know our job. I mean, not that the columnists bother me after nine years, but what's-his-name that writes for the Post--

MR. BLOUGH: Lindley?

H.M.JR: Lindley said I say a lot of pretty words about inflation, but I never back it up with any tax recommendations.

MR. PAUL: He has been saying that.

H.M.JR: So he may be right. Maybe Ernest Lindley is right. I would like to find out.

MR. PATTERSON: Of course, for your own purpose on your own tax law, I have nothing to say about that at all. We were only discussing the thing from the point of view it might have on the pending legislation for profit limitation.

H.M.JR: Bob, if I go up and just make a cold plea, without anything new, I am not going to get to first base.

MR. PATTERSON: I think it would be very helpful if you could do it and press for speed. That is a new element in view of the pressure now on profit limitations, isn't it?

MR. PAUL: New thing in revenue.

H.M.JR: No hard feelings, you fellows handle it the best you can, and that's that.

MR. PATTERSON: No, we want your assistance.

H.M.JR: No, I won't go.

MR. NELSON: I think the combination of the two things, administration of re-negotiation which you have got well set up now, where you can catch a great many of these companies, certainly the ones--

MR. PATTERSON: If we get another instance flaunted right in front of their faces right now like Jack and Hintz, we are just wasting our time here today. I can tell you that. Off they will go, and there will be a six percent or a five percent or something like that, and you will have some of the most awkward legislation to handle you have ever had.

H.M.JR: You see, if we go up there with a lot - supposing we discover another half a dozen cases like Jack and Hintz--

MR. PATTERSON: That is Forrestal's case.

H.M.JR: Supposing you do find another and then they ask Paul, "What about Jack and Hintz?" He says, in regard to this woman who is getting forty thousand dollars, it is disallowed, and that he gives them a chance to explain how the income tax thing works.

MR. PAUL: I did that before.

MR. PATTERSON: You told the Vinson Committee they would never get away with a thing like that.

MR. PAUL: Yes, I did. I even pointed to the criminal statutes at their pressure.

MR. FORRESTAL: On this list of companies, what I am suggesting is, what is against doing the exploratory work, getting the statements, see how it looks, and I say, then make your decisions whether you are going before that committee or not.

MR. PAUL: I wonder how long that committee will be in session.

MR. PATTERSON: That conference? Some few days, no doubt of that.

MR. FOLEY: The Senate will be in session until the twenty-first.

H.M.JR: If that is what you want, don't prolong the agony. Everybody has got a lot to do. No use prolonging the agony here, everybody is busy. If that is what you want, just count me out, that is all. No hard feelings.

MR. FORRESTAL: I haven't talked to Bob on it, but I think it is always difficult to visualize - you talk about taxes and what they are, but unless you nail it down in terms of specific figures, it doesn't register.

MR. MARBURY: You can use figures without names of companies.

MR. FORRESTAL: Well, we might do that. The same with these salaries of executives.

MR. PATTERSON: I dare say, that with a good many of those companies on that list which are the big companies, no question of that, probably a pretty good list, that with a good many of those companies, probably it would be quite illuminating to know what the effect would be of your new rates on that, and probably--

MR. PAUL: I would like to know.

MR. PATTERSON: I think probably the showing in many cases would be what you would want.

MR. FORRESTAL: We have done some hypothetical figuring ourselves it knocks these earnings into a cocked hat in most cases taking your proposal.

MR. PATTERSON: You take a company like Consolidated Aircraft, there is no doubt of the fact that they have got quite a chunk of fat.

MR. FORRESTAL: Even on that it looks as if they would make five million dollars this year against eight million dollars last year.

H.M.JR: Five against how much?

MR. FORRESTAL: Eight.

H.M.JR: How much volume?

MR. FORRESTAL: Tremendous.

MR. MARBURY: After taxes?

MR. FORRESTAL: Yes.

MR. NELSON: I think this will be very illuminating to see how it is.

H.M.JR: We are going to do it anyway.

MR. PATTERSON: My only doubt is what effect it would have to discuss the upshot of it with this conference committee.

MR. PAUL: You don't want to have discussions with them before we look in the back of the book and know the answer.

MR. PATTERSON: I thought maybe you were committed to do it, to go ahead.

MR. PAUL: If we tell them we are going to, we are.

(Admiral Land passed the paper to Mr. Nelson.)

ADMIRAL LAND: Those are just ones, Don, we selected in case you wanted our things, that is all. The only comment I make on your list is that there are no Liberty Ship, straight Liberty Ship, contractors on it at all, and you probably ought to add one on those. You ought to have one of the Kaiser group in there, Kaiser group, Liberty Ship Builders.

MR. NELSON: Yes, I think so.

H.M.JR: Give us the name.

ADMIRAL LAND: I have given it to Mr. Nelson.

MR. NELSON: He has got a list there, five or six additional companies.

H.M.JR: You would like those added?

ADMIRAL LAND: I would like to have Mr. Nelson consider them and see whether they fit in with his picture.

MR. NELSON: Yes, I think so.

H.M.JR: Do you recommend those?

MR. NELSON: They are all right.

ADMIRAL LAND: More or less of a cross section. I think Nelson's list is O.K. I can understand why they didn't pick one, they are so new they didn't have any record.

MR. NELSON: That was the reason.

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ADMIRAL LAND: I think, for strategy, you ought to have one of the Kaiser group in. They have been shot at all over the U.S.

MR. PATTERSON: Quite a number of these concerns in 1941 - a great percentage of their business was with ordinary industry, and they would not be particularly revealing as to the effect of a profit limitation by the Government.

MR. PAUL: I think that is true, except that I understand that they plan to segregate the business. I don't know whether they can do that.

H.M.JR: Who crossed this out?

(The paper is handed to the Secretary.)

ADMIRAL LAND: That is a list submitted to me by my financial director. I picked out six of them that were typical. Anybody can pick anybody else they want to. We agreed those were the most typical. Some of those are on Mr. Nelson's list and some not.

H.M.JR: I want to be able to say that we didn't pick the list. I want to be able to say we didn't pick it.

ADMIRAL LAND: You asked who crossed them out. I picked the six.

H.M.JR: I want to be able to say Nelson picked them.

MR. NELSON: I think those are all right.

H.M.JR: I want to be able to say that Nelson picked the list.

MR. NELSON: Those would be all right as an addition. They were new companies.

ADMIRAL LAND: They wouldn't pick a Liberty Ship, they have no record. They only started in February 1941.

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MR. PATTERSON: Was the period for which the statements are to be taken their last fiscal year?

MR. PAUL: Yes, it will be either the fiscal year ending December 31, will be the last we could get, or previous fiscal year.

MR. SULLIVAN: Bob, what we are asking for from these companies are for the years '39, '40, and '41. The amount of profit recorded before and after computation of Federal taxes, the excess profit tax credit used by the taxpayer as well as the average base period net income or invested capital for each year, depending upon the method used in arriving at the excess profits tax credit claim. The names of, and amounts paid to corporate executives for each of the several years who received compensation of ten thousand dollars or more in any one or more years. The net profit derived from Government contracts reflected in the total net profit record, the gross Government contract price, and the cost of performing the contract. If profits are reflected on basis of partial completion, the percentage of the contract price reflected in gross income and the percentage of contract completion, then we will take those figures and superimpose on the 1941 profits the tax rates in the pending Treasury proposal.

MR. PATTERSON: Well, let's do this, if agreeable to all concerned. The thing is on the way. Let's see when the returns come in, and I will abide by what Randolph Paul thinks, as to whether it would be helpful or not, as to whether a full discussion of these cases with the people in charge of this pending revenue bill would help any.

MR. MARBURY: You won't be able to get all the information on costs of the contract. If they could give us that we wouldn't be worried.

MR. SULLIVAN: We will, in many instances.

MR. PAUL: I am concerned about the time factor here. The committee meets Thursday, we won't have this until Monday or Tuesday, and to get it then is almost a physical impossibility.

MR. PATTERSON: I doubt if they have adjourned by that time. I really think they will still be in conference. Maybe not.

MR. PAUL: Of course, if they take testimony in conference committee it will take a long time.

MR. PATTERSON: The conference, as I understand it, consists, in this case, of the full committee, so there will be some thirty or forty men sitting around.

ADMIRAL LAND: And a lot of them aren't here and won't be here this week.

MR. PATTERSON: That is good.

H.M.JR: No use keeping - I think you are wrong, but I will abide - it is your baby.

MR. PATTERSON: You don't think I am wrong in what I have said, now? I say that when the election returns are in, I want brother Paul to study them. You don't disagree with that?

MR. PAUL: I would be the first one if they came in and showed we weren't getting enough tax, to revise my schedule upwards.

MR. PATTERSON: I also would like your judgment as to whether the use of those figures and so on would be helpful to us in our pressing problem now.

MR. PAUL: I will be glad to give you my answer on that, although that is a political question.

MEMORANDUM

April 15, 1942.

TO: The Secretary
FROM: Mr. Sullivan

JHS

Yesterday afternoon the attached instructions were given to Agents in Charge in regard to the audit of the corporations enumerated on pages 2 and 3 of this memorandum.

This morning the same instructions were given in regard to the corporations on page 4, the additional list submitted by Admiral Land through Mr. Donald Nelson.