April 25, 1942 4:30 p.m.

HMJr:

Hello.

Operator:

There you are.

HMJr:

Hello.

Commander

J. P. Clay: Hello.

HMJr:

This is Mr. Morgenthau, Secretary of the

Treasury.

C:

Yes, sir.

HMJr:

Can you take a message for Admiral King?

C:

Certainly.

HMJr:

I invited the Secretary of War and Navy, and Mr. Nelson to join me here in the Treasury on the night of May 4 for a broadcast to help

me sell War Bonds.

C:

Yes, sir. Just one second, sir.

HMJr:

Hello.

C:

May 4th broadcast.

HMJr:

On May 4th.

C:

Yes, ar.

HMJr:

And there was - I invited Mr. Knox, Mr. Stimson,

and Mr. Nelson.

C:

Yes, sir.

HMJr:

Now, Mr. Knox said he'd be on the West Coast.

C:

Yes, sir.

HMJr:

And he said he'd be very glad if Admiral King

would go on in his place.

Yes, sir. C:

And I'd like to extend an invitation to HMJr:

Admiral King to do that.

C: Yes, sir.

Well, now, will you extend that invitation to HMJr:

him in my behalf?

C: Yes, sir.

And let me know, if you could, in a ressonable time whether he'd be willing to do it. HMJr:

Yes, sir. C:

I don't know whether you're familiar with the HMJr:

broadcast we did Thursday night where we opened

this campaign.

Yes, sir. Not entirely. I do know something C:

about it, yes, sir.

Well, we were fortunate enough to have Lieutenant HMJr:

O'Hare that night .....

C: Yes, sir.

.... and he did a swell job for us. HMJr:

C: Well, that's fine.

But I'm very anxious to have Admiral King if HMJr:

he would consider it.

C:

All right, sir, and I'll get word to him. He's - as you know, he's out of town. It may take

tomorrow some time when you can get an answer.

Oh, if I have an answer Monday morning. HMJr:

C: Monday morning.

HMJr: Yes.

C: All right. HMJr:

Thank you.

C:

You're welcome, sir.

# TREASURY DEPARTMENT

324

INTER OFFICE COMMUNICATION

DATE April 25, 1942

Secretary Morgenthau
FROM Vincent F. Callahan

With reference to your memorandum of April 23,
I wish to report that announcements of the broadcast
Thursday night were sent to every member of Congress, the
Supreme Court, the Vice President, the Cabinet, and the
heads of independent agencies before the broadcast. The
announcements were delivered by messenger service supplied
by the War Savings Staff and the Chief Clerk's Office of
the Treasury.

Vincent F. Caelakan

# TREASURY DEPARTMENT

# INTER OFFICE COMMUNICATION

DATE April 25, 1942

to Secretary Morgenthau FROM Mr. Callahan

As per your instructions, the Press
Department will feed Mr. Earl Godwin all available
material of type he wants regularly.

Vinut T. Caelalan

April 25, 1942.

# MEMORANDUM

To: Mr. Ted. R. Genble

From: Frederick Camble
Foul West
Paul Eesten
Lee Burnett
Miller McClistock

· HA

Representing the Advertising Council and reporting on behalf of the Executive Counciltoe of the Council as to the action proposed in response to the Secretary of the Treasury's request for immediate aid from the advertising industry in commection with the sale of War Savings Bonds;

- The Advertising Council new has a clear concept of the emergency character of the Treasury's problem in the merchandising of War Bonds, and more particularly in the completion of the Payroll Deduction Plan.
- 2. The Advertising Council will devote itself immediately to an analysis of and planning for the Payroll Deduction Plan problem, currently assisting through its research facilities the collection of mesossary information for the analysis of consumer attitudes with respect to Treasury sales, and will, so far as possible, if mesossary, assist in the actual collection of such consumer attitudes. The objective of the Council in this matter is to properc with the advice and guidance of the Treasury a complete overall plan for industry participation, both by management and labor, in the Payroll Deduction Plan to the total set by the Treasury in its objective.
- 5. The Executive Committee recognizes that important as this emergency problem of payroll deduction may be, and as important as may be the highly concentrated approach directly to industry and management and labor, that the full attaining of the Freesury's objective and the sustaining of this effort ever what may be a long period of time, will require, through the channels of advertising and publicity, an everall program to mold and shape the attitudes of all the american people, and this will be considered immediately and continuously until this overall, continuing program is completed and executed.

-2-

to The Executive Committee of the Advertising Council has related in its conferences these specific and immediate problems of the Treasury to the particular abilities and shills of individual advertising men, and has created a list of candidates whose aid it will seek instantly to head and coordinate the activities on behalf of the Council, and under the direction of the Treasury. It is recognized that immediate action is urgent. Hr. Chester LaRoche, Chairman of the Board and Mr. Harold Thomas, Vice Chairman, have indeed already returned to New York to get in touch with the specialists selected by the Council for the objective purposes. It is hoped that they may be able to report to Mr. Mahan and Mr. Callahan for detailed analysis work on Monday of next week; if net Monday, on Tuesday, or if not Tuesday, at the earliest possible date.

Respectfully submitted;

(signed) Miller McClintock Executive Director MISS CHAUNCEY

The attached has been sent

- 1. Senators
- 2. Representatives
- 3. Heads of Independent
  Agencies
  4. Directors of Federal
  Reserve Banks
  5. Members of the Federal
- Reserve Board
- 6. Presidents of the Federal Reserve Bks.

Dear Bobs

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heart

Honorable Robert L. Doughton, The House of Representatives, Washington, D. C.

RWS: mtr

Copies to: Mr. Graves
Mr. Thompson

Mailed from Mr. Graves' office.

Dear Walters

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and oriticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely.

(Higned) Heary

Honorable Walter F. George, The United States Senate, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

EWS:Mtr

Mailed from Mr. Graves' office.

Dear Don:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Hears

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

> Copies to: Mr. Graves Mr. Thompson

EWS: MTR Hailed from Mr. Graves' office.

Dear Albent

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heavy

The Honorable Alben W. Barkley, The United States Senate, Washington, D. C.

> Copies to: Mr. Graves Nr. Thompson

EWS:Mtr Mailed from Mr. Graves' office.

Dear Sem:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and oriticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heary

The Honorable,
The Speaker of the House
of Representatives,
Washington, D. C.

Copies to: Mr. Graves Mr. Thompson

Nailed from Mr. Graves' office. EWS:me

# Dear Francesi

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistence and cooperation we can put it over.

Sincerely,

(Signed) Heave

The Honorable Frances Perkins, Secretary of Labor, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

EWS; me

- Mailed from Mr. Graves' office.

Dear Jessel

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies amploying nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely.

(Signed) Record

The Honorable Jesse H. Jones, Secretary of Commerce, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' office.

Deer Farold:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appropriate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely.

(Signed) Heavy

The Honorable Herold L. Ickes, Secretary of the Interior, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' office.

Dear Franks

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heary

The Honorable Frank C. Walker, Postmaster General, Washington, D. C.

> Gopies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' cffice.

Dear Henrys

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heary

The Honorable Henry L. Stimson, Secretary of War, Washington, D. C.

Miss Chauncey
Copies to: Mr. Graves
Mr. Thompson

Mailed from Mr. Graves' office.

EWSIdy

## Dear Francis:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 compenies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would eppreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heary

The Honorable Francis Biddle, Attorney General, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' office.

EWS: dv

Dear Cordell:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heary

The Honorable Cordell Hull, Secretary of State, Washington, D. C.

> Copies to: Mr. Graves Mr. Phompson

Mailed from Mr. Graves' office.

-

Dear Henry:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heavy

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

Copies to:

Mr. Graves Mr. Thompson

Will from Nr. Graves' office.

Dear Claudes

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I em confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heavy

The Honorable Claude R. Wickard, Secretary of Agriculture, Washington, D. C.

> Gopies to: Mr. Graves Mr. Thompson

Nailed from Mr. Graves' office.

# Dear Marriner:

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heavy

Honorable Marriner S. Eccles, Chairman, Board of Governors of the Federal Reserve System, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' office. EWS:mtr

Dear Leon;

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signed) Heary

Honorable Leon Henderson, Administrator, Office of Price Administration, Washington, D. C.

> Copies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' office.

Dear Franks

You may be interested to see the enclosed copies of a letter and a leaflet which have just been sent to each of about 20,000 companies employing nearly twenty million workers. As soon as you have an opportunity to go over this material, I would appreciate having your suggestions and criticisms.

We have a big job to do and I am confident that with your assistance and cooperation we can put it over.

Sincerely,

(Signod) Nearl

The Honoreble Frank Knox, Secretary of the Navy, Washington, D. C.

> Gopies to: Mr. Graves Mr. Thompson

Mailed from Mr. Graves' office.



# THE SECRETARY OF THE TREASURY

April 25, 1942

Since the Defense Savings Program was launched in May 1941, events of far-reaching importance have occurred. To preserve our very existence we have been compelled to wage war upon far-flung battle lines. To maintain these lines, the President has said that during 1942 we must produce over 60,000 planes; 45,000 tanks; 20,000 anti-aircraft guns; 8,000,000 tons of shipping; in addition to mobilizing, training and equipping millions of fighting men. Upwards of 501 of our total productive capacity and an equal share of our national income must be diverted to making war materials.

This has meant a tremendous increase in the magnitude of the financial problem facing the Government. Reliable estimates indicate that during the next fiscal year, that is from July 1, 1942 to June 30, 1943, we shall spend in the neighborhood of 60 billion dollars.

The Revenue Act as it comes from Congress will determine how much of the money needed to finance the war is to be raised by taxation. The balance must be borrowed by the Irasury. In all probability, we shall have to borrow upwards of 35 billion dollars between now and this time next year.

If the Government is compelled to go to the commercial banks for the bulk of these funds, the result will be to increase inflationary tendencies which are already serious. This is true because when commercial banks buy Government Bonds they do not pay for them with actual cash taken from their vaults, but by placing on their books newly created deposits to the credit of the Government. When the Government draws upon these deposits to pay for the goods and services it buys, the purchasing power of those to whom these payments are made is increased without any decrease in the purchasing power of those from whom the money is borrowed.



When bonds are purchased with savings out of current income, on the other nand, such savings nelp to reduce excess consumer income which if spent for a limited supply of consumer goods would tend to force prices up. It is for this reason, among others, that we are going directly to the people for as much as possible of the money needed for the war. It would be difficult to say exactly how much we can borrow directly from the people. We cannot, of course, hope to borrow in this way all that will be needed. Nevertheless, some definite objective is desirable if we are to have a standard by which to measure our success.

We have, therefore, set as our goal for the twelve month period beginning July 1st, the sale of United States Savings Bonds, Series E. F and G. having an initial cost value of not less than \$12,000,000,000. This will be equal to slightly more than 10% of our estimated national income during this period.

Sales of Defense Bonds during the period May 1941, through March 1942, amounted to \$4,860,000,000, or an average of approximately \$440,000,000 per month. If we are to reach our goal, an average of a billion dollars a month, we shall have to increase this rate of sale by approximately 2½ times. This should not be difficult to do in view of the rapidly increasing national income and in view also of the fact that the supply of many commodities upon which people would normally spend their income will be restricted by the demands of war production.

The seeing of a definite goal or quota does not mean an abandonment or basic change in our fundamental objectives and methods. It does mean an intensification of activity all along the line. It does mean that henceforth our savings campaign must move on a war basis. If we are to achieve the goal outlined for the nation as a whole, it will be necessary to establish subsidiary goals or quotas for states and counties. This we intend to do.

The most effective, single method for promoting the systematic purchase of United States Savings Bonds is through the payroll savings plan. Already nearly 50,000 firms in the United States employing a total of almost 20,000,000 people have made such plans available to their employees. You are among those who are cooperating in this program, and I am writing to you, not only to thank you for your neighble cooperation up to date, but to ask for your increased effort in the future.

TIME IS SHORT. The ever-increasing demands of our war machine create an urgency that we cannot escape or evade. To raise the billions which we now need to win the war, and to do all in our power to check inflation, we must raise our sights. I am suggesting, therefore, as a total or quota for those administering the payrol! savings plan, that AT LEAST 10% of gross payrol! be set aside by the employees for the purchase of United States Savings Bonds.

We are still a long way from that goal. Among the nearly 50,000 firms having a payroll savings plan the average participation at the present time is about 45% of the employees. The average monthly saving is about \$7.50 PER CAPITA, representing in the neighborhood of 4.3% of the pay of those participating. In other words, if we consider ALL of the employees of all the participating firms, only a bit more than 2% of the gross payroll is now being invested in Defense Bonds.

Considering the difficulties involved in the initial installation of payroll savings plans this is a good record. But we must go forward now on two fronts: FIRST, we must increase the percentage of employees participating in payroll savings plans from approximately 45% to at least 90% of the total number. SECOND, we must encourage all participating employees to increase their average monthly allotment from about \$7.50 per capita to an average of nearly \$20 per capita.

To help achieve this new goal I am sending you herewith the story of one successful method for accomplishing this. This is the first of a series of "case histories" which we hope to send to you from time to time. This campaign conducted by the General Electric Company has not succeeded in reaching our new goal, but it seems to me that it is along lines such as are here outlined that we can most quickly and simply succeed.

You will, of course, realize that a flat 10% allotment of individual wages and salaries by all employees will not accomplish this purpose. It does not take account of individual differences either as to income received or personal and family responsibilities. Some individuals will be able to set aside a good deal more than 10% of their pay; others less. The overall result, however, should equal 10% of the gross payroll. I also realize that the formula according to which the savings quots is distributed among the employees will vary from place to place. To help in making such a distribution, I am enclosing a savings schedule for the systematic purchase of United States Bonds for persons at different income levels. The allotments indicated are based on national averages and will serve merely as a guide in setting up a suggested schedule to fit your own payroll.

In conducting a drive for increased participation at higher rates of saving, the friendly active cooperation of the workers themselves is of the utmost importance. Organized Labor - including the American Federation of Labor, the Congress of Industrial Organizations, the Railroad Brotherhoods and their constituent unions almost without exception - has pledged its full all-out support of this program. Employers must remember that it is the money of their amployees which is

being invested in Savings Bonds through payroll savings plans and must encourage in every way possible - by joint committees or other methods of cooperation - a spirit of partnership and joint loyalty among all the good American citizens participating. Working together, management and labor can not only insure the success of this most important war effort, but can lay the foundations for improved industrial relations which will bear increasingly rich fruit in the years to come.

Many questions will undoubtedly occur to you concerning this new and intensified program. I should be glad to hear from you and I shall welcome any inquiries or comments you may wish to make.

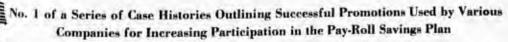
I want to express my appreciation again for your generous cooperation thus far. I know that in the months ahead you will not fail.

Sincerely yours,

norgenthan &.

# PAY-ROLL SAVINGS BOND PROGRAM

General Electric Company Employees



DEFENSE SAVINGS STAFF, TREASURY DEPARTMENT, WASHINGTON, D. C.



# GENERAL & ELECTRIC COMPANY

SANGLAL OFFICE ACHENECTADY, N. T.

> 1 River Road SCHENECTADY, N. Y.

> > February 9, 1942.

MR. HAROLD N. GRAVES.

Assistant to Secretary of the Treasury Morgenthess, Treasury Department, Weshington, D. C.

Bear Mr. Graves:

I am estarbling a summary of the results of the General Electric Company's Defense Savings Band drive, which was conducted last December. In addition to a number of easi, sales, about \$3 persons of drive, which was conducted last Devember. In another to a number of rash sales, about 23 persons of our supplyone placed the regular purchase of Bonds under our pay-roll deduction plan. The pledges

These figures, while they testify in the aucross of the drive, tell nuthing of the tremendous contact-These figures, while they testify in the ancress of the grive, tell mensing of the tremendous embassions with which our employees carried on this effort, and which was responsible for its sucress. Hecause ann with which our employees rarried on this effort, and which was responsible for its sucress. Because a large part of our manufacturing facilities have been devoted to war production for more than a year, General Electric employees have consistently been months ahead of the general public in their realisation. bearent construct employees have communicatly near monant anear or the general public in their realiza-tion of the seriousness of the war effort. This has been evidenced by the many mass meetings held to tion of the scripusmess of the war effort. This has been evidenced by the many mass meetings held to pledge "all-out" war production, the hundreds of American flags purchased by employers and hung in the slups, the desilication coremonies held when new buildings have started war production, the receptions me sump, the grantation coremones must when men autumnas many started was production, the receptions given parties of Army and Navy afficers when they have visited our plants, and by the constant flow of

The Defense Savings Bond drive was a further manifestation of this determination among our The Defense Savings Bond drive was a further manifestation of this desermination among our implayers to do everything possible to help win the war. If this phelige to help Defense Bands is a serifice in their part, then it is only one of the many sarrifaces they have already made to further the

In the meetings that were held to instruct those working on the drive, various speakers gave strion reasons for buying Bonds—as a good investment, as a means of relating inflation, and at m. But the spirit that made the drive so outstandingly surrounded was the patriotic spirit of the employees themselves—their enthusiastic desire to spare no sacrifive that would help smash the forces of

We were particularly pleased with the abowing made by our Schenetsady works, since this is nor largest factory, and therefore represented the biggest job of organization in this drive. More than 95 serious of these employees subscribed—93 percent joining in the pay-old deduction plan. The average plugs was \$330 per subscribed—93 percent joining in the pay-old deduction plan. The average plugs was \$330 per subscriber per year (maturity value of Bonds). Obviously the reason for so Stat a response goes far deeper than just the effort earried during this drive—it shows a recognition of sixty response for deeper than just the effort earried during this drive—it shows a recognition area a response goes for deeper than just the effort exerted during this drive—it shows a recognition of civic responsibility by these comployees acquired through years of participation in group activities within the company and the civic activities of their communities.

W. W. Trench, Secretary.

GENERAL ELECTRIC COMPANY.

WITCHEST PRINCIPAL STREET

Regraded Unclassified

# DEFENSE SAVINGS BOND PROGRAM

# General Electric Company Employees

This report summarizes the progress made in General Electric's Defense flond selling program through December 31, 1941. This program has been planned as a series of I-week drives, repeated about thise a year for the duration of the war effort. The first of these drives was corried on during December in all plants and offices of the company.

## RESULTS

Three methods of purchasing Defense Savings Bonds were offered General Electric employees:

- (1) By pay-roll deductions regularly each pay period. Only the Series E Honds were uffered under this plan.
- (2) For cash.
- (3) By income accumulation. Linder this plus the employee authorizes the company to pay interest due him on his General Electric employees bonds and his profit-sharing payments in the form of Series E Defense Savings Bonds.

The 121,270 employees on our pay rolls at the beginning of December responded as follows:

Form of Payment	Number of Employees Participating	Maturity Value of Bunda Purchased	Percentage of Employees Participating 83.0%	
Pay-roll Deduction	101,025	\$20,205,000°		
For Cash	6,770	\$1,025,625	5.6%	
Income Accumulation:	2,700	\$154,750	2.2%	

<sup>\*</sup>Annual basis

Savings Stumps with a value of \$46,600 were also purchased during 1941.

Since the close of the drive in December, additional authorizations have continued to come in. The figures for January are not yet tabulated but will increase those given above.

The average amborization, on an annual basis, is about \$200 (maturity value) per participating employee, representing on a cash basis about 6.5 percent of the company carnings of these employees.

At our Scheneciady plant approximately 95 percent of the employees subscribed, pledging an average of \$330 per subscriber per year (maturity value of bonds). This means that these General Electric are and women are subscribing about 10 percent of their company carnings for Defense Bonds.



# THE GENERAL ELECTRIC DEFENSE BOND DRIVE

Because the General Electric Company Defense Savings Bond composen has been among the most successful so far conducted, we are including here a detailed description of how General Electric scent about the job of soliciting its 121,270 employees.

General Electric's employees are scattered in more than a bundred units from coast to coast. About 1(0,000 General Electric people are situated in about 30 factories, ranging in size from the Schenectady Works, with several thousand people, to the smallest factory with only two or three hundred employees. Sales offices are located in 86 cities, and associated with these offices are other units—warehouses and service shope. Thus General Electric's Defense Savings Bond drive covered the whale range of conditions likely to be faced by any company, large or small.

When the Defense Savings Bunds were first offered in May 1941, General Electric immediately announced a plan to make it convenient for its employees to obtain them. This plan was worked out by the company's treasury department and offered three ways by which Defense Savings Bonds could be purchased:

- (1) By Pay-Roll Deduction (in installments)
  - By filling out a form, obtainable from his paymaster, any employee could authorize the company to make regular deductions from his pay checks. These amounts would accumulate, and each time the total reached the required amount the company would purchase a bund and have it mailed to his home.
- (2) For Cush
  - By applying to his paymaster, my employee could request the cumpany to purchase bonds for him and have them mailed to his bonne.
- (3) By Income Accumulation
  - By filling out a form, obtainable from his paymaster, any employee could authorize the company to pay interest due him on his General Electric employees bonds and his profit-sharing payments in the form of Series E Defense Savings Bonds.

## RECORDS AND REPORTS

The feneral Electric treasury department worked with each of the paymasters in setting up a uniform procedure for keeping records. After the authorization form filled out by the employee has been recorded by the local paymaster on the employee's pay-rull record, the form is sent to the company's reasury department at Scheneciady, where a record is kept so that all honds can be purchased by the freasury department at Scheneciady as needed.

# INFORMING THE EMPLOYEES

The job of informing employees on the features of the Defense Savings Bonds and the provisions of the General Electric purchase plan was begun at once. A booklet describing the bonds and the purchase plan was prepared and a copy given to each employee. Posters describing the plan were displayed on all 1,500 bulletin boards throughout the organization. The employee publications took up the job of education and of arousing interest in bond purchases.

Sure no one publication covers all General Electric employees, much of this material was prepared at Schenerady and syndicated to the editors of nine employee papers. Week after week from then on kambreds of articles, editorials, cartoons, and news items were used to tell the story from all angles and is the simplest possible terms. At the same time, the urgency of the defense effort was being emphasised in these same publications and by talks, motion pictores, dedication ceremonies, posters, flags, bill-bards, and in other ways.

# Sizing Up the Defense Savings Bonds



MUCH DEPENDS upon the success of the Defense Savings Honds. Unlies we purchase them liberally the Government has only two alternatives in resing mancy lie the Assumement Program, It can bery much higher tayer, or to use court to increasing from the banks. The effect of higher taxes is abricathe effect of back bornering not so obvices. But of these rice afterestives, back hornowing is the more dangerous. It can lead to inflation- greatly increasing the

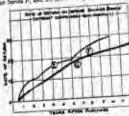
Thus, in the present opergranty, buying Defener savings floads is not only parintic, it is good serus, by a case of either humany out money volumerily or pay ing it not for higher rease and higher living costs. And when that inevitable ing at our ow organic the Defense Savings Boards we've laid sweap will help to see us Hirough



THE SERIES E BONDS appear to Redemption Value be the best investment for mine of in, in shows by the putline below,

## Rate of Interest

The rate of course depends on how horse you keep the bonds. The lower was both the hands, before cashing them in the hands the rate of increase there is said to manustry, being E bonds yield 147% as compared to 1.17% for Series F, and 1.17% for Series F, and 1.17% for Series G.



Series E lauris matter in 10 years; the other two Anrits manufe in 13 years.

Series E bonds may be reduced at any june effer be days from date of time. The other series cannon be responsed until six munths after more date.

## Method of Redemption

After the convidentable period has elapsed, Senses E bonds may be cashed on demand. The other per arries remains one march's written nation for

# Denominations Available

mounts and be invested in Series E. Dones.

CHARLE BUILDING		A			
Series & Atlantation Value Same Print.	Billion Billion	\$17.00 \$27.00	1 m	# (m) # 1275	170
Serie F Manualty Yelia Inne Prim	17			\$5700 \$5700	
Series G Manney Value James Print	fin free	Spec Spec	\$1000 \$1000	\$1000	Impe lover

Because the inverses on linth Series E and Series P toroids in held the accommission and in cost withdrawn, these bonds received in value during their life. Series G hunda can be indeemed befiere maturity unit at a discount (see chart below).



# Limitation on Yearly Purchases

Each owner may purchase up to \$1000 (manurity value) of Seyon E boods in any one calendary Series are finited to a total of \$10,000 (cost price) for head combined.

## Registration

Some E tricks must be registered in the name of

- (i) one indredual
- (x) two individuals as en-merces
- (a) one individual and a beneficiary

Series V and G bonds may also be registered to the name of an association, partnership, trustee, or compressor (banks assembled demand deposits, are radiated).

## Interest Payments

Of the Grow series, G is the only one that provides current interest parments. These sera-annual parments are at the rair of 11/17 per annual. The interest on Series E and F bonds is left to accomplete, thus the value of these bonds in-creases percedually.

## ALL DEFENSE BONDS ARE REGISTERED

1.1. Delenet Savings Bands are repaired in A the name of the owner, or names, giving principles against loss or theft. They are also numerosalerable, which prevents that heing conas occurry for a hank tour. They may, begreen, be redecired in part. Thus the owner of a fire-Beriet E band could, at my time after the mild forces period, exchange it for one or more his hands and recover cash for the interplane rates



Subscribe For

DEFENSE

SAVINGS

CHARTE O MICLES

DEPRESE

SAVINGS PLAN

CENTRAL DEPOTER

Commentator.

# PLANNING THE SALES DRIVE

Payments terminated in December on subscriptions under the company's former savings plan, which offered bonds of General Electric Employees Securities Corporation as the investment medium. These subscriptions can concurrently with subscriptions to Defense Savings Bonds made in May. No forther offering of General Electric employees bonds has been made.

By this time it was abvious that most General Electric employees had made up their minds to purcha-Defense Savings Bonds, but for one reason or another had not yet gotten around to it. It was therefore decided to solicit each employee individually, making sure that each understood the bonds, the purchaplan, and the reasons for purchasing Bonds regularly.

The New York State Director of the U. S. Defense Bond Staff was contacted by General Electric to leave what promotional materials were available to assist them in this Bond-selling drive. After selecting the pieces they wanted, they designed several additional items for their own use.

In order to work out the details of the drive quickly, the personnel supervisors from the saveral plants were called to a meeting at Schenectady. At this meeting the principal decisions made were so follows:

- (1) The solicitors should be a voluntary organization of employees.
- (2) Each solicitor should be responsible for personally contacting about 20 employers, shipping the exact number would vary, depending on local conditions.
- (3) At each factory and office a drive chairman should be appointed by the local manager. Be would select a captain in each department of the local organization; each captain multi-select a fleutenam in each section of his department; and within each section the fleutenam would select their new sulletture. Thus the solicitor organization closely paralleled be physical organization of the company itself.
- (4) No quotas would be set, but if employees asked how much they should subscribe for, it was decided to recommend about 10 percent of their income, in line with the expectations of the U. S. Treasury Department.
- (5) It was decided to stress the Series E Bonds. Only the Series E Bonds were offered for sale under the Pay-Roll Savings Plan. Series F and G Bonds were offered for cash sale.
- (6) The Pay-Roll Savings Plan would be emphasized, although if unsuccessful in getting an emillayer to use this plan, the cash and income accumulation plans would be offered by the solicitor.

Many other details were worked not at this meeting. The training of solicitors, the promotional sale rials, the timing of all parts of the program, and other questions were reviewed and decisions reached.

At this same time the General Electric treasury department called a meeting of all paymasters. These also met in Scheneciady and worked out the details of the accounting procedure and the handling of the records.

Following the plans outlined, the personnel supervisors returned to their respective units and began building the solicitor organizations. The paymenters began augmenting their facilities for handling the outhorizations. The publicity department at Schemectarly prepared the promotional materials and the employee publications stepped up their efforts and began releasing details regarding the coming drive. The smaller units of the company not covered by the personnel supervisors who attended the Scheme lady meeting were confected by mail and given their instructions to this way.



# THE PROMOTIONAL MATERIALS

The promotional materials prepared by the publicity department to aid the Bond-selling drive were a follows:

- (1) Special articles, editorials, cartoons, and similar items were syndicated to the nine employee publications. The editors of these publications added a good deal of material of their own to give local color and arouse local pride in making a good showing.
- (2) Several thousand posters were obtained from the U. S. Treasury Department and distributed to all units of the company for display purposes. Fifteen hundred bulletin-board posters were printed and put on company bulletin boards to advertise the General Electric pay-roll deduction plan.
- (3) A booklet of instructions for solicitors was prepared and fifteen thousand copies distributed to the respective chairmen to assist in training solicitors.
- (4) The company's Defense Savings Plan was published in booklet form. The plan described completely the features of the Bonds and the method of purchase available. One hundred and twenty-five thousand copies were distributed to the various chairmen so that a copy could be handed each employee just before the drive opened.

- (5) A leaflet listing the principal reasons for buying Bonds was prepared. One hundred and twenty-five thousand copies were distributed to the various chairmen, who gave each solicitor one copy for each employee he was to contact.
- (6) A form authorizing pay-roll savings was prepared for each employee to fill out. One hundred and fifty thousand copies were distributed to the respective paymasters. Each employee's name and company address was placed on one of these forms. These were then turned over to the chairmen for distribution to solicitors. Thus each solicitor received individual authorization forms for each employee he was to contact.
- (7) A smaller number of forms authorizing cash purchases, and a like number of forms authorizing income accumulation payments, were prepared, and each solicitor was given two or three of each for any employee who preferred this method of purchase. The various forms were printed on different colored papers to avoid confusion.
- (8) In addition, various mimeographed letters and instructions were prepared to keep the solicitor organization informed on steps being taken, meetings being held, and other events from time to time both before and during the drive.



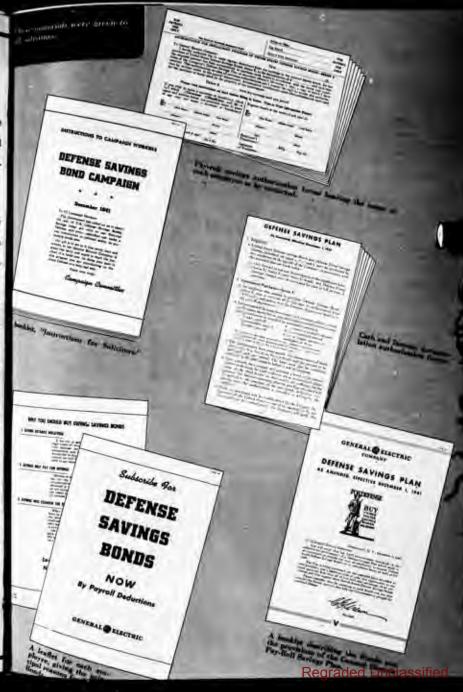
# TRAINING THE SOLICITORS

The training of the solicitors was carried out step by step before the drive opened. The various chairmen instructed their captains, the captains in turn trained their lieutenants, and the lieutenants instructed their solicitors. The booklet of instructions and other promotional materials were distributed in time to be useful in this training process.

The second step consisted of calling the solicitors together just before the drive opened is large meetings. In some of the larger factories several hundred solicitors attended each meeting, and more than one meeting had to be arranged to accommodate them all. While general instructions were repeated at these meetings, their purpose was primarily to arouse enthusiasm for the job ahead. The program varied from factory to factory, but a typical meeting was supervised by the works manager or by the local drive chairman. At one meeting the secretary of the company pointed out that the Bonds are an excellent investment, reading the interest rates of other leading bonds from the morning paper for comparison.

This was followed by a talk given by a local union representative, who urged all employees to subscribe, appealing to their pride as a group which had already contributed greatly to the national war effort.

The final speaker was the company vice president in charge of war projects, a forceful speaker who emphasized what war means to each citizen and what will be required for victory. He emphasized regular Bond purchases as one of the duties and privileges of every citizen today, and told the solicitors that the job they were about to do was as important as any in the war effort.



## Gacts About Defense Savings Bonds

## SERIES E DEFENSE SAVINGS BONDS

#### DENOMINATIONS

WHAT YOU GET AT MATCHITE \$1000.00 \$50.00 \$100.00 \$500.00 \$25.00 WHAT THE BUNDS COST YOU

\$750.00

PAYROLL DEDUCTIONS WEIGHT DISTALLMENTS

50 cents, \$1.00 or more in multiples of 50 cents MUNTELY DISTALLMENTS

\$2.00 or more in multiples of \$1.00

Or you may buy a bond such pay ported

\$18.75 \$37.50 \$75.00 \$375.00 Your serious gree 33 1/3 % in ter-years

### HOW TO BUY BONDS

timply \$11 out subjects the form making ears in specify do numeration of word desired and most to be disducted. Force many the to complete in other respects (NOTE SAMPLE BELOW) Than give form in country, supervise or Payrell firet.

#### INTEREST

garg, if held in marriery.

#### REDEEMABLE

Any time after to days for falls amount half plus betteret den pau

#### F and G BONDS

May be parelessed strongly Pay will Dept. for rath in full at time of perchasi



#### ADVANTAGES

- (I) Save some of your most
- for post over parties Security backed by It. S.
- Buly served infation

Master in his years.

#### CASH PURCHASES

E Series bands may be purchased ber rack of may Have through Pay-

#### REGISTRATION

Short years name of widow

(1) this person (3) Con person and leasthing

wife nest drive many process

## Gollow This Sample Form When Making Out Your Authorization

Woman, Scient, Street, Street, or

LOWN MASS

the said in 12 - 2 rises of had below their as being . Type or Print

R BROWN 123 HILLSIDE AVE MUTUR - 74 TOTALES John A. dwar

NATIONWIDE DEFENSE BOND CAMPAIGN GETS UNDER WAY.

 $E^{\rm VKR}$  SINCE LAST April we've been hearing appeals to buy Defense Savings thank Every day for the last eight mouths radio annual eras has VKA SINCE 1.421 April or re-treat meaning appears to my frequence berings agents with their descriptions of tracy-wavy dappers from an "Citbey's girlin finding." agents with their descriptions in their easily support may be "Gilley girller". Mayeres are here could the Concord Minute Man a familiar figure to million of Magazine età nare mane que concore numer mue a nameno neve se municio ni Americas Hallbourds and postere have appealed es our patriotami-newsquiper articles American Indiports and posters have appeared to our patriotomy accumpant entities have pointed out the "reaccus why." And for eight manths from of an have agreed wholehear painted out the "reacces way. And for eagen manners area of an area spread a hope-hearingly with everything that was being and but here gone blanfully on our exp, resections where the same Defense Bonds the first time we get senual in it.

And or the second sale of Defense Bends has been disapprenting to the U.A. Treasury And as the victors are to concense money can been compared to the U.S. Treating Department, and something in being done along it. I distinct regional directors have Department, and successing in using more assess it. I protein regular discuss have been realisabled throughout the country, and business forms, clock organization, schools, the president of other thinds we was leads to consert said ourse between the conserts.



## MR. BISBEE BUYS BONDS





OCTOBER





### MATIONAL CAMPAIGN EFFORT O BE MADE IN DECEMBER

STEMPER

beginning of this effect can be factored by personal angular of During the Liberty despeta of 1817-1818, A maximum of working weer strike Today, the or the array references that six elections rought will be marking to sell Defense

and minimum arms, programme age day to married payred deduction plans include of three bonds. Somirer ones and a provide for the sale of Federal state in their problems occupate such then an atom makens to bring 21 and each work for the purchase of

AND FOR THE DURATION



regular weekly indicating from their in during

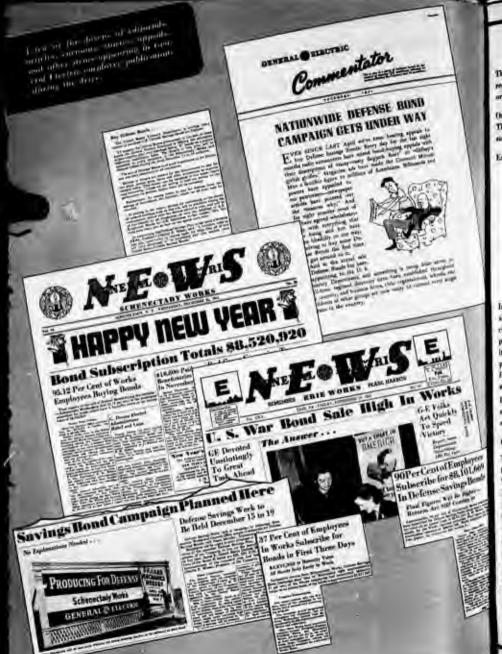
WHAT G.E CAN DO DEPENDS ON US

hast April, when the Treasury Department armoused the Defence Savings Band Program. Control Electric was among the first of co-contract. A Orient Sarrago Fran was adopted to make the portion of Defense Sands 46 mayers of the panals for all G.E. people.

In order so the in with the It 5. Treasury's process offices to capani is hand-strong program, tierryal Electric has one advanced a revised Deferm lavings Plan One of your fellow consister will sent call in our as a Defect Brief Campaign worker, ready to answer and prentium you man have on this program - and me the day of delications are sell to pell defeet Artifree, but also to propule for your one forms separity he making purchase of Defense Savings

translation full popular activities appropriate in Conand the fair emphases publications during the the second purchase of the frame Survives

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#### THE DRIVE

The drive was scheduled in last I week, although it was realized that another week would probably be required for the solicitors to clean up some of their contacts who happened to be away during the drive or sho were slow in making a decision.

the Friday before the drive opened, each employee was given a copy of the Defense Savings Plan.

These were bunded out by the foremen and other supervisors. On the following Manday the salicitors nated work.

Each sufficient had the following materials.

- A pay-coll deduction authorization form for each employee he was to contact, filled in with the employee's name and location.
- (2) A few cash authorization forms and a few income accumulation forms in case any employee he contacted preferred one of these methods of subscription.
- (3) A leaflet for each employee giving the principal reasons for buying Bonds.
- (4) A copy of the Defense Savings Plan booklet describing the Bonds and Pay-Roll Savings Plan, for reference.
- (5) A copy of the booklet "Instructions for Solicitors," for reference.

In contacting each employee, the solicitor first reviewed briefly the features of the Bonds and the provisions of the Pay-Rull Savings Plan, to make sure that the person he was contacting understood them. He desired up any questions that arese and gave the principal reasons for buying Bonds. Then he gave his prospect the puy-rull savings authorization form with his name imprinted on it and urged him to take It hame and discuss it with his family. He also gave his prospect a copy of the leaflet explaining the principal reasons for buying Bonds to help him in selling the idea to his wife or other members of his family interested. The solicitor then made an appointment to call back later in the week and get the suborization form.

If, on his return call, the employee indicated that he did not wish to authorize pay-roll deductions, the solicitor then explained the cash payment and income accumulation plans, arging his prospect to subscribe in one of these ways.

#### QUESTIONS RAISED

De questions most frequently asked by employees were about the Bonds themselves: "What is the difference between Series E, F, and G?" "How soon can I cash them if I niced the muncy in a harry?" "What is the best denomination to buy?" "Do I get any interest if I cash them in the first year?" "Do I get any interest if I lost the Bond?" "Can I put the law less than I paid if I cash them before maturity?" "What if I lost the Bond?" "Can I put the Bond in the name of my youngster?" "What is a co-owner or beneficiary?" "Will some place of safe-keping he provided?"

Subcitors were instructed that if any questions came up that they could not answer, to ask their leader, in this way all questions were answered correctly—some of them were even referred back to the head-pasters of Schenectady in order to be sure of the answer.

By the road of the week the drive was practically complete, although some "cleaning up" remained. The rempleted forms were passed back through the organization to the chairman, who turned them over to the heat payeroll department.



#### CONCLUSIONS

The "pyramid" type of solicitor organization used proved ideally suited to the job. It was possible to organize it in a few days; it made the training of the actual solicitors relatively easy; it was a simple matter to give instructions and distribute a half million pieces of literature quickly and efficiently; it was easy to expand quickly in those areas where additional help was found necessary as the drive progressed; and it made possible a day-by-day check of results.

The same procedure was found to be efficient in large factories with several thousand employees and in small units of a hundred or so people. In the smaller units the effort was, of course, less formal. The meetings consisted of smaller groups, and there were fewer steps in the "pyramid" of the solicitor organization.

War was declared just prior to the opening of the drive, and large outdoor mass meetings were held at most of the large factories to pledge an "all-out" war effort. This no doubt belped in boosting enthusiasm still higher and contributed to the results.

The field organization of the U. S. Treasury Department Defense Savings Staff was just getting under way at the time the drive was being planned and in several instances was of help in furnishing materials and in giving talks before groups of soliciture and others working on the drive. In one case the General Electric group helped the Defense Savings Staff in getting the city organized so that the city-wide effort could start at the same time as the drive in the local General Electric factory.

The elapsed time, from the day the idea of sponsoring such a drive was conceived until the day the drive ended, was only about I month. Urgency was stressed all through the effort, and this no doubt contributed to getting the job done quickly and efficiently. On the other hand, sufficient time was given to make sure that the organization was properly set up and trained before the drive was started.

In order to forestall the possibility of employees cashing in their Bonds to pay income taxes, General Electric moved ahead the date on which the next profit-sharing payment would normally be made to employees by about a month, so as to distribute this money early in March instead of in April.

O & S CONTINUED PROVIDE STREET SHE HILLS

#### UNITED STATES SAVINGS BONDS

# Comparative Statement of Sales During First Twenty-one Business Days of April, March and February 1942 (April 1-24, March 1-25, February 1-25) On Basis of Issue Price

(Amounts in thousands of dollars)

Item	: Sales			: Amount of Increase : or Decrease (-)		:	Percentage of Increase or Decrease (-)		
	April	March	: : February	: April	: March : over : February	:	April over March	1	Narch over February
Series I - Post Offices Series I - Banks	\$ 65,724 190,352	\$ 71,177 208,730	\$ 78,063 278,485	-\$ 5,453 - 18,378	-\$ 6,886 - 69,755		- 7.7% - 8.8		- 8.8% - 25.0
Series E - Total Series F - Banks Series G - Banks	256,076 31,185 129,214	279,907 33,837 150,607	356,549 46,761 220,128	- 23,831 - 2,652 - 21,393	- 76,642 - 12,924 - 69,521		- 8.5 - 7.8 - 14.2		- 21.5 - 27.6 - 31.6
Total	\$416,474	\$464,351	\$623,438	-\$ 47,877	-\$159,087		- 10.3%		- 25.55

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

April 25, 1942.

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

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

UNITED STATES SAVINGS BONDS
Daily Sales - April, 1942
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales Series M	Bank Bond Sales				All Bond Sales				
		Series B	Series 7	Series 0	Total	Series E	Series 7	Series G	Total	
pr11 1942	4 - 6 -	Jan Marin	Colonia	District And	45.32.4	Nan/m			No.	
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	20,95	
3	3,222	7,572	1,185	6,235	14,992	10,794	1,185	6,235	18,21	
4:	2,775	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	18,49	
8	2,309	9,610	1,142	6,562	17,314	11,919	1,142	6,562	19,62	
9	2,906	9,304	955	5.715	15,974	12,210	955	5.715	15,58	
10	2,730	8,052	1,573	5,261	14,585	10,752	1,573	5,261	17,61	
11	2,150	5,224	668	2,720	8,613	7.374	668	2,720	10,762	
13 14	4,619	17.572	2,432	8,604	28,609	22,192	2,432	8,604	33,228	
14	2,513	6,152	1,076	3,333	10,561	8,665	1,076	3.333	13,07	
15 16	2,584	5,102	1,251	5.374	11,728	7,686	1,251	5.374	14,312	
16	3,472	10,008	1,400	7.773	19,180	13,480	1,400	7.773	22,652	
17	2,690	8,076	850	3.695	12,621	10,766	850	3,695	15.311	
18	3,111	7.175	948	3,303	11,426	10,286	948	3,303	14,537	
20	5,252	13.334	2,227	9,001	24,562	18,586	2,227	9,001	29,811	
21	2,517	6,845	977	3,703	11,525	9,362	977	3,703	14,042	
22 23 24	2,925	9,112	1,925	6,793	17,830	12,037	1,925	6,793	20.755	
23	3,101	9,403	1,805	5,928	17.136	12,504	1,805	5,928	20,237	
24	3,451	10,981	1,721	5.694	18,396	14,431	1,721	5,694	21,846	
Total	\$ 65.724	\$190,352	\$ 31,185	\$129,214	\$350,750	\$256,076	\$ 31,185	\$129,214	\$416,474	

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

April 25, 1942.

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

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

35

Regraded Unclassified

TREASURY DEPARTMENT and return

DATE April 25, 1942.

FROM George Buffington CAD .

Following your suggestion, Mr. T. J. Bryce interviewed corporation officials on Thursday and Friday of this week at the Federal Reserve Bank of New York (EXHIBIT A) and I interviewed the officials of a number of corporations other than insurance companies at the Federal Reserve Bank of Chicago (EXHIBIT B) during the same two days.

Because of the short time in which both Federal Reserve banks had to arrange appointments, it was not possible to interview a large number of corporations and report to you by Monday, April 27, 1942. While there appears to be a substantial amount of corporation cash available for investment, it might be desirable to extend the investigation further before making a final decision.

From the attached reports it would appear that insurance companies are interested in the long tap issue. There is some difference between the Treasury's tentative proposal on rates and those which the insurance companies would like to have. Corporations which now have idle funds or contemplate having funds accumulate as a result of deferred maintenance, etc., are interested in the short tap issue. Most people interviewed question, however, the wisdom of the Government's expanding the amount of demand obligations and the opinion was expressed by several people with whom I talked that an offering of this kind would result in liquidation of general market Government securities. Should it be decided in the future to offer a five-year tap issue, seles should be made with care in order that corporations with funds temporarily idle not be encouraged to purchase the securities with the idea in mind of redeeming them in a comparatively short time.

There appears to be an increasing accumulation of cash brought about by the necessity to defer maintenance. However, many corporations expect these balances in part will be absorbed to meet higher income taxes.

TO: Mr. George Buffington

FROM: T. J. Bryce

#### INTERVIEWS - APRIL 23, 1942

### 1. New York Life Insurance Company Mr. A. H. Meyers, Treasurer

Thinks a long-term tap issue attractive to insurance companies, if offered on a basis which would net them 1/4 of 1 per cent more than an open market negotiable issue yield. Assuming a twenty-year open market issue quoted to yield approximately 2 1/2 per cent, would think that twenty-year tap issue should yield 2 3/4 per cent. Objects strenuously to proposed \$1,000,000 limit. Would have no interest in five-year issue but would continue to buy six-month certificates of indebtedness, providing had right to convert any time before maturity into any long-term issues which might be offered during that period.

## 2. Prudential Insurance Company Mr. J. W. Stedman, Vice President

Feels very much as Mr. Meyers does about rate, maturity, etc.
on proposed long-term tap issue. Stressed the fact that the shorter
the maturity the better as long as yield would be approximately 2 3/4
per cent. Is pessimistic about long-term interest rates holding at present
level; also thinks great mistake to have \$1,000,000 limitation, as felt
both the Prudential and Metropolitan would want \$100,000,000 of any such
issue as is being discussed.

Expects to be in the market for \$350,000,000 to \$400,000,000 of Government securities before the end of calendar year. Pointed out that his company is still getting 3 per cent on fifteen year loans which are being negotiated on a private deal basis.

### 3. Continental Can Company Mr. J. B. Jeffries, Jr. Treasurer

Heavy borrower and would have no interest in proposed tap issues, except if asked to subscribe on patrictic basis. While can companies are being permitted to continue to manufacture all cans in which to pack food, their general line of business (paints, tobacco, candy cans) is being completely knocked out. While getting some war business, Mr. Jeffries predicted that by Fall six or seven of their plants would be idle and he has great doubts as to the company's ability to maintain present \$2 dividend.

May be in funds from October to May and, therefore, might be interested in short-term certificate of indebtedness issue if offered in the Fall. Now owing banks \$5,000,000; company has installed payroll deduction plan; he has feeling that employees are not buying enough bonds.

A. R. H. Macy and Company

### Mr. Beardsley Ruml, Treasurer

While his company is proposing to issue a large debenture issue to refund notes and to considerably better its working capital position, he feels that corporations generally would be very much interested in a five year tap issue. He also pointed out that after getting his company in the working capital position referred to above, he would be glad to consider the purchase of a substantial amount of a five-year tap issue, with the understanding that he could redeem it at any time with the proper notice,

## 5. National Lead Company Mr. Charles Simon, Treasurer

In anticipation of our entrance into the war, this company built up its inventories substantially, with importations from Africa and Indiana and this situation, together with the development of a mine in the Adirondacks, leaves the company with no excess funds, though it is not borrowing from the banks. As the inventory referred to above is liquidated, this company would be very much interested in a short-term tap issue but he thought that it might have to redeem the bonds within eighteen months. Thinks corporations generally would be very much interested in such an issue.

## 6. Consolidated Edison Company Mr. William F. O'Brien, Treasurer, and Mr. D. C. Johnson, Vice President.

Very enthusiastic about five-year tap issue as long as can redeem bonds on short notice. Unlike most utilities, Consolidated Edison is over-built as to plant so it has excess funds as evidenced by recent subscription to certificate of indebtedness issue.

Mr. Johnson told me that there is a possibility that they
will sell some of their up-state properties to the aluminum industry
which would put them in a position to subscribe for a substantial amount,
if a short-term tap issue is to be offered.

### 7. Equitable Life Assurance Society of the United States Mr. F. A. Shailer, Vice President

He feels that there should be a differential of at least 1/4 to 3/8 per cent in a long-term tap issue vs. a marketable issue. Points out that twelve-year Covernment bonds are selling in the market to yield approximately 2.17 per cent whereas the "G" bonds with the same maturity yield 2.53 per cent. Therefore, some differential should exist in a twenty-year bond. He figures that a twenty-two-year bond with a twenty-year option would probably today command a small premium for 2 1/2 per cent and that, therefore, an eighteen to twenty-year tap issue should be offered to yield at least 2 3/4 per cent.

Several of the insurance companies have pointed out that they would be very happy to subscribe for very substantial amounts of the present honds if the limit were raised. Mr. Shailer pointed out that several

of the big companies do not own any "G" bonds apparently because they do not want to go to the trouble of putting such a small amount on their books.

He thinks that a great many individuals are holding back purchasing war bonds as they are only interested in the "Es" and, having bought their limit, would rather wait until they can buy more of that issue than to go into the lesser attractive "Fs" and "Gs". Thinks something should be done about the "Fs" as investors are buying five times as many "Ts" as "Fs". Thinks "Fs" should either be done away with or given more "it".

### 8. General Motors Corporation Mr. F. G. Donner, Vice President

Very critical of the way the certificate of indebtedness issue was handled. Not bothered so much by investment bankers and brokers calling them as the number of telegrams received. Pointed out that this company has a great many subsidiaries, each of which received a telegram which was quite often sent to the wrong place. Thinks it would have been much better if he had been called up by the Federal Reserve Bank in the regular way.

This corporation would have no interest in either a short or long-term tap issue as because of conversion of business into the war effort will have to be a heavy borrower from banks and elsewhere to provide enough working capital to carry on business. It was only because they happened to have substantial funds waiting to pay taxes that they were able to make a large subscription for the recent certificate of indebtedness issue. Feels that companies with surplus funds should be very much interested in the proposed five-year tap issue; thinks rate on it incidental as ability to redeem on short notice is of more interest to corporations.

### INTERVIEWS - APRIL 24, 1942

### 9. Cities Service Company Mr. E. H. Johnston, Vice President

This holding company has always made a practice of trying to stay in strong cash position and has never been a holder of short-term securities, such as certificates of indebtedness, etc.

Mr. Johnston seems to feel that his banks like to see all cash in his balance sheet and he would only subscribe for certificates of indebtedness for patriotic reasons. His company has a debt of \$150,000,000, \$83,000,000 of which matures on or before 1950; two-thirds of their business is in oil, the rest being natural gas and production electricity. This company very much affected by increase in transportation of oil and is heavily involved in the war effort.

### 10. Public Service Corporation of New Jersey Mr. T. W. Van Middlesworth, Treasurer

Would never be interested in anything but certificates of indebtedness but thinks that proposed short tap issue should be very attractive to those corporations which are continually in possession of surplus funds. His company is in the midst of arranging a \$15,000,000 loan with the Prudential and other insurance companies.

## II. Metropolitan Life Insurance Company Mr. H. C. Hagerty, Treasurer

Would be very much interested in an eighteen to twenty-year tap issue on 2 1/2 per cent basis. Did not raise the point about wanting a higher rate because of the rate obtainable on market issues of the same maturity. Like Mr. Meyers of the New York Life Insurance Company, feels that his company would be a steady buyer of certificates of indebtedness if

it could have the privilege of converting during the life into long-term issues. Raised the question about insurance laws not permitting his company to purchase issues which could not be redeemed for a year, or sold in the market. <a href="https://example.com/kr. Stedman of the Prudential Insurance Company">kr. Stedman of the Prudential Insurance Company</a> also raised this point but both assumed that this provision in the law might be changed.

## 12. General Electric Company Mr. J. W. Lewis, Treasurer

Talked to Mr. Lewis at Schenectady by telephone inasmuch as he is not in New York on Thursday or Friday. He said that his company's cash position is so indefinite, because of the constant demands on it due to the war effort, that it could not consider investing in anything running for more than one year. Does not feel that proposed five-year tap issue should be attractive to corporations generally as he thinks they should be in position to get cash on a moment's notice.

General Electric Company has two large pension funds, both of which would be very much interested in the five-year as well as the twenty-year tap issue.

## 13. Eastern Air Lines Mr. Warren Moore, Assistant Treasurer

Would be very much interested in a five-year tap issue and would probably hold for duration of war as would be unable until then to invest cash in necessary new equipment. Feels that other air lines would have same point of view. Have been investing in General Motors acceptances, certificates of indebtedness and other short-term marketable securities.

## lh. Julius Kayser and Company Mr. Albert G. Flume, Treasurer and Comptroller

His company's business is divided 60 per cent hosiery, 20 per cent gloves and 20 per cent underwear. Because of rationing of nylon, rayon, etc. inventories are decreasing and cash account is correspondingly increasing. This condition will continue until company is able to convert some of its activities into war work. This is not easy for them to do because of the character of business and the type of machines used.

Mr. Flume feels that a short-term tap issue would be very attractive and will probably want to subscribe to from \$250,000 to \$300,000. He is very anxious to maintain his balances with his banks to insure ample lines of credit so that when the war is over they will be able to resume normal operations. His company has payroll allotment plan in operation and results have been much better than they had anticipated.

### MEMORANDUM O

April 25, 1942.

#### INVESTMENT OF IDLE BUSINESS FUNDS FIVE-YEAR TAP ISSUE

The following people were interviewed at the Chicago Federal Reserve Bank on Thursday and Friday, April 23 and 24, 1942:

Household Finance Company

D. F. McClure, Secretary General American Tank Car Corporation 2.

Max Epstein, Chairman Peoples Gas Light & Coke Company 3. James A. Cunningham, Vice President

Montgomery Ward & Company 4. H. L. Pearson, Treasurer

5. Bowman Dairy Company

D. B. Peck, President Chicago Burlington & Quincy Reilroad Company Relph Budd, President

Eli Lilly & Company N. H. Noyes, Vice President

в. Belden Manufacturing Company Whipple Jacobs, President

9. Marshall Field & Company Earl Kribben, Secretary-Treasurer

10. U. S. Gyosum Company

C. H. Shaver, Treasurer 11. Chicago Surface Lines John E. Sullivan, Treasurer

1. Household Finance Company. Mr. McClure states that their last balance sheet shows accounts and notes receivable of \$85,000,000. On the liability side the company has capital stock and surplus of \$48,000,000 of which \$18,000,000 is preferred stock callable at \$107. The balance is represented in common stock which is currently selling \$8 under its book value. In sddition, the company has \$7,000,000 in reserves and also approximstely \$30,000,000 bank loans. The bank debt is divided roughly into \$16,000,000 maturing in 120 days and the balance of \$14,000,000 is represented by term losns running from one to four years.

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The Household Finance Company is engaged in what they term remedial loan business as distinguished from installment loans. Mr. McClure expects that with the present Federal Reserve regulations, receivables during the next year will decrease about 10%. The company probably will follow a practice of reducing capital and borrowed money in about the same proportion. While the company has substantial cash balances, a large part of their cash is represented in deposits with banks as compensating balances against money borrowed. Unless there is drastic reduction in receivables to a point where the borrowings would be extinguished, Mr. McClure sees little likelihood of their having funds for investment.

that their cash has been increased in recent months due to their inability to secure materials. The company's annual depreciation amounts to approximately \$6,000,000. Of this amount, roughly \$3,500,000 is used to meet maturities of equipment trust certificates, leaving an unexpended balance of around \$2,500,000. Mr. Epstein did not buy Certificates of Indebtedness recently offered because he felt the rate was low and after paying taxes he would receive little more compensation than the cost of handling. He likes very much the short tap issue and said his company would be willing to invest a substantial part of their depreciation reserve in the new bond issue. He does not feel it necessary to pay interest on bonds redeemed during the first six months, stating that he feels funds invested for this short period should be regarded in the same light as bank balances upon which the company receives no intorest.

- 3. Peoples Gas Light & Coke Company. Mr. Cunningham states that their cash balances today are approximately \$7,000,000. In the normal conduct of their business they only require a working balance of \$2,000,000. Their annual depreciation amounts to approximately \$3,500,000. Under normal conditions this amount will be expended annually on capital improvements. During the current year they do not expect to expend more than \$1,500,000 because of their inability to secure materials. Mr. Cunningham believes their cash will increase by the end of the year to \$11,000,000. Outside of funds expended to extinguish company dept, he does not look for any appreciable reduction in cash resulting from improvements. Mr. Cunningham believes much of the added power requirements of industry will be provided through diversion of power from nonessential sources. He is very much interested in the short tap Issue and believes his company could well afford to invest a substantial portion of their excess cash in this issue. The War Production Board may request Peoples Gas Light & Coke Company to expand their coke producing facilities to take care of added requirements of the steel industry. Should this expansion become necessary, it would require between \$3,000,000 and \$3,500,000.
- 4. Montgomery Ward & Company. Mr. Pearson states that their receivables today are down about \$20,000,000 from the high point last year. Inventory values during the same period increased approximately in the same ratio the receivables have declined. He expects that if the regulations governing installment sales are not changed, receivables will decline further during the present year at the rate of around \$1,000,000 a month. He expects that

inventories during the remainder of the year will probably decrease approximately \$30,000,000. Should the Treasury's present tax program go into effect this year, their tax liability is estimated between \$45,000,000 and \$50,000,000. The company has purchased so far this year approximately \$7,000,000 of Tax Savings Notes. This smount, together with cash produced by reduction in inventory and receivables, will cover their tax liability. Mr. Pearson states that they will continue to buy Tax Savings Notes the remainder of the year but, unless there is a very snarp curtailment in goods available, he does not expect they will have surplus cash for purchase of other Government obligations.

- 5. Bowman Dairy Company. The company is owing its banks approximately \$3,000,000 as a result of added working capital requirements necessitated by Government business. The company has recently secured a substantial contract for dried eggs and dried milk. As long as these contracts are in force, Dr. Peck sees little chance of their reducing bank loans substantially and, therefore, they will not have funds for investment.
- 6. Chicago Burlington & Quincy Railroad Company. Mr. Budd states that the company has cash balances at present of approximately \$21,000,000 of which \$10,000,000 is required as working balance. Sometime ago the company sold \$9,000,000 of equipment trust certificates covering the cost of 3,500 new freight cars. Due to priorities, it appears unlikely that they will be able to build more than two-thirds of the cars. The equipment trust certificates are held by an eastern insurance company and Mr. Budd believes they may be able to pay off the unused portion. Failing in this, he

believes the trustee holding the funds might invest the full amount in a five-year tap issue. The company also has outstanding 13,500,000 of an original \$7,000,000 trust certificate issue which they are considering redeeming prior to maturity. The company has a general bond issue maturing in 1949, which presently is selling below par. Under the Revenue Act the company has to return for taxes any amount saved through the purchase of bonds below par. Mr. Budd states there is a bill pending in Congress now to provide that discount on bonds purchased not be returned as profit for taxes. He hopes the bill will be acted on favorably inasmuch as it is not producing revenue for the Government and prevents railroads from paying off indebtednesses at a time when bonds are available below par. If the company does not redeem bonds, he would invest available funds in a five-year tap issue. Mr. Budd estimates equipment trust certificates covering 40,000 cars at a cost of \$3,000 each, or \$120,000,000, are in the hands of insurance companies and the funds are frozen with the trustee on account of priorities. He sees some likelihood that the railroads may approach the insurance companies to permit them to retire the obligations. The result would be that the insurance companies would have \$120,000,000 new cash for investment. Mr. Budd believes that the railroads like Missouri Pacific, Northwestern, St. Paul and Rock Island, which have undergone reorganization probably have more substantial funds for investment than the other roads in good financial condition. He does not know whether or not the trustees would be at liberty to buy Government obligations and does not altogether feel that it

would be wise from the Tressury's point of view since funds would largely be paid out following reorganization, resulting in large redemption of the Government issues.

Mr. Budd states that they have signed up something like 90% of their 24,000 employees for the Payroll Savings Plan. The average earning of their employees is \$2,000 annually. He believes that they will buy approximately \$480,000 of Series E bonds per month which is at the rate of \$5,700,000 per year, or roughly 12% of the payroll.

- 7. Eli Lilly & Company. Mr. Noyes states that his company is holding approximately \$500,000 in Tax Savings Notes and he recently subscribed for \$1,500,000 of Certificates of Indebtedness. It has been a policy of the company not to buy any Government securities maturing beyond two years. Mr. Noyes says that their annual depreciation is \$450,000. In the last two years they have expended as nigh as \$700,000 necessary on account of war work. He does not think these expenditures will continue at the same rate in the future and would be very glad to invest their surplus funds in a five-year tap issue. He likes very much the guaranteed market and the short redemption date.
- 8. Belden Manufacturing Company. Mr. Jacobs states that they purchased last year \$300,000 of Tax Savings Notes. During 1942 the company contemplates paying 1941 taxes out of current income. In addition, they expect to buy \$50,000 a month of Tax Savings Notes out of 1942 income which, together with the \$300,000 Tax Notes now held, will provide funds for tax payments due in 1943 on 1942 income. The company's annual depreciation amounts to \$200,000, very little of which Mr. Jacobs thinks they will spend. While their present program for tax reserves will not permit investment of their

depreciation during the next six or eight months, he believes it would be wise for his company to buy monthly the short tap issue up to the amount of their annual depreciation. In addition he would like to set up a reserve for post war plant conversion and believes the short tap issue would be particularly adaptable for this purpose.

- 9. Marshall Field & Company. This company has no available cash for investment. At the present time their working balances amount to \$9,000,000. Mr. Kribben states that outstanding commitments on inventory for delivery prior to October will reduce balances as of October 1 to \$3,000,000. Their inventory is up 28% over a year ago of which he estimates 18% is represented by price increases. The company charges \$2,400,000 annually against depreciation. Of this amount, they spent \$1,200,000 last year in improvements. The remainder was used to retire outstanding conds held by the Metropolitan Life Insurance Company. The company's Federal tax on 1941 income amounted to \$5,500,000 against which they are holding \$2,000,000 of Tax Savings Notes. Mr. Kribben believes next year they will be able to spend very little of their depreciation and therefore would be glad to buy the five-year tap issue.
- 10. U. S. Gypsum Company. Mr. Shaver states they they have approximately \$5,000,000 excess cash based on present volume. He doubts that they will be able to spend any of the \$2,500,000 depreciation reserve under present conditions. While he questions the desirability of the Government expanding the amount of demand obligations outstanding, he believes his Finance Committee would

look with favor on the five-year tap issue. If it is decided to offer this type of bond to corporations, Mr. Shaver states that they would be inclined to purchase monthly an amount of the issue equivalent to their depreciation reserves.

11. Chicago Surface Lines. The Chicago Surface Lines have impounded approximately \$20,000,000, which represents depreciation accrued at the rate of 8% of gross receipts since 1907. These funds are tied up under a court order but it is expected they will be released by June 1 of this year. In addition, the company has special reserves of something over \$2,000,000. It is expected a reorganization will be effected sometime after the middle of the year and, while it was originally contemplated a substantial part of the reserve would be spent on improvements, Mr. Sullivan believes that the company could well afford to purchase a substantial amount of the five-year tap issue to hold until such time as they can use the funds for rehabilitation of the property.

Mr. Thompson talked to Secretary about this today and will talk to him again later.

4/28/42

Mr. Thompson reported to HM Jr at 9:30 meeting. He is to check weekly on official cars and let HM Jr know of any change. See also his memo of 4/27.

Tell Finished - 5/29/42 -

April 25, 1942

TO:

MR. THOMPSON

FROM:

THE SECRETARY

At Cabinet, Secretary Ickes brought up the question of the use of Government cars; that we ought to cut down on them, and the President said he thought the Government should set a good example.

Have we tried to organise automobile clubs whereby people living in the same neighborhood would club together on coming to the Treasury?

Please talk to me about this and the use of the cars that are at my private entrance.

#### MEMORANDUM

TO:

Secretary Morgenthau

FROM:

Mr. Sullivan

7 LS

Re: The "Glass Plan"

The so-called "Glass Plan" is essentially a proposal to include income from tax-exempt securities in the total income of a taxpayer in determining the rate of tax to be applied to the taxable income.

Under the Plan originally advocated in the Annual Report of the Secretary of the Treasury for 1919, a tentative surtax would be computed upon the entire net income of a taxpayer, including exempt interest on public obligations. The surtax payable would then be an amount bearing the same ratio to taxable net income as the tentative surtax bears to the entire net income. This method gives effect to the exemption at the average surtax rates, and taxes the taxable income at the average rates.

A variation of the plan is to compute surtax upon the entire net income of the bondholder, including tax-exempt interest and from the tax so

computed to subtract the surtax on an amount equal to the exempt interest. This method would give effect to the exemption at the lowest surtax rates rather than at the highest rates, as is the case under present law. The latter proposal was mentioned by Mr. Roswell Magill in an address before the Thirtieth Annual Conference on Taxation in Baltimore, Maryland, on October 28, 1937.

Taxpayer A who has an income of \$100,000 for the taxable year, \$50,000 of which is interest from tax-exempt securities. Under existing law he would pay a surtax of \$19,380, or a rate of 38.8 percent upon the taxable income. Under the terms of the original "Glass Plan," the effective rate of surtax upon an income of \$100,000 would be ascertained, and this percentage would be applied against the taxable income in computing the surtax of \$24,890 or 49.8 percent upon the taxable income. The alternate proposal would impose a surtax on the taxable income equal to the excess of the surtax upon

\$100,000 over the surtax payable on an income of \$50,000. Under current rates the surtax of Tax-payer A would be \$30,400 or 60.8 percent of the taxable income.

In view of the power of the Federal Government to tax the entire amount of interest upon outstanding State and municipal obligations, there can be little question as to the constitutionality of the "Glass Plan" and its variation as applied to taxpayers receiving such interest. It is very questionable, however, whether the Plan can be constitutionally applied with respect to tax-exempt interest upon Federal obligations.

April 25, 1942

TO:

MR. KUHN

FROM:

THE SECRETARY

You will remember that, yesterday, Gen. Searle said they intercepted a Japanese farmers' broadcast directing them in case of parachutists landing on Japan that first a leg should be cut off and then their arms and then their heads.

It seems to me that we ought to get hold of a transcript of this and use it quickly in either the Star Parade or in some of our literature.

I think that you ought to make arrangements to see that somebody gets these Japanese intercepts and whenever there is anything of this nature that we pick up from Japan or Germany it should be used.

Please let me know in writing who you designate to watch these foreign intercepts, and as they come in I would like to see them myself.

April 25, 1942.

Dan Bell Secretary Morgenthau

#### CONFIDENTIAL

I saw the wife of the American Consul General from Java who tells me that she landed in New Orleans a week ago, and that on her ship was all the gold from Java. If that's correct, do you know what has happened to it? Please let me know.

See Belli mems / 4/25/42.

#### TREASURY DEPARTMENT

#### INTER-OFFICE COMMUNICATION

DATE April 25, 1942

to Secretary Morgenthau

FROM Mr. D. W. Bell

with reference to the inquiry regarding gold from Java, Mr. Dietrich informs me that on April 12 the SS TJITJALENGKA arrived at New Orleans with 25 drums containing double eagles having a face value of \$1,500,000 and a bullion value of \$2,539,000. In accordance with instructions received from Dr. Loudon, the Netherlands Minister, the Federal Reserve Bank of New York arranged for the transshipment of this gold from New Orleans to New York and placed it under earmark at the Federal for account of De Javasche Bank, Batavia, on April 20.

Mr. Dietrich also informs me that the Federal was told by the Funch Edye Steemship Company that this shipment originally contained 100 drums, but that 75 drums were taken off the ship at some point in Australia, for delivery to the Commonwealth Bank of Australia. If the contents of these drums were the same as those received in New York, they contained double eagles having a face value of \$4,500,000 and a bullion value of \$7,600,000.

Swa

APR (5 194)

Dear Mr. Henderson .

This is in reply to your letter of april 17 in which you refer to a report you received from Handy and Harmon to the effect that there is a strong likelihood that the open market price of eliver may advance rapidly in the near future.

Though the dellar price of silver has probably been more stable than that of any other metal (except gold) since July 10, 1939, it is not unlikely that the price of silver may rise in the coming menths. The price of silver has remained at approximately 35 cents, even though the treasury has been out of the narket for foreign silver for five menths. This would seen to suggest that the demand for silver at current prices has not been significantly greater than the market can supply. However, if the supply of silver continues to decline and the demand continues to increase, either relatively or absolutely, it might be worthwhile for the Mar Production Hoard to explore the possibilities of curtailing sense of the non-essential uses for silver.

The only large sources of supply that are not now available for industrial uses are nowly-sized domestic silver which is purchased by the Treasury at 71.11 sents an owner in compliance with the Act of July 6, 1939, and the Treasury nonctary stock of silver. Neither of these sources of supply, however, can be made available to the market without Congressional action. Were Congress to decide to modify the existing silver legislation so as to permit the Treasury to sell silver, or give the Treasury discretionary powers in the purchasing of decestic silver it would, of course, be possible to prevent the rise of the price of silver beyond any selected level.

Very truly yours,

will B. Sorembies- "

Secretary of the Treasury

Mr. Leon Renderson, Administrator, Office of Price Administration, Washington, D. C.

HTM : 101 - 4/23/42

Hate file to the C.

## OFFICE OF PRICE ADMINISTRATION WASHINGTON, D. C.

April 17, 1942

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

My dear Mr. Secretary:

My attention has been called to the fact that there is a strong likelihood that the open market price for silver may advance rapidly in the near future. Mr. Gustav H. Niemeyer, of Handy and Harman, the predominant firm in this field, states that this is primarily due to three factors:

- (1) Increased demand of silver for war purposes;
- Increased demand for civilian purposes to replace essential metals now requisitioned for war purposes;
- (3) Some tendency for foreign imports to decline.

The Office of Price Administration must, of course, give careful attention to any price which shows a tendency to rise. At present prices considerable amounts of silver can be used for defense purposes, thus relieving somewhat the pressure on metals for which critical shortages exist. If the demand for luxury goods using silver forces the price up, then the substitution of silver for other metals for war purposes may well be scriously impeded.

Prompt action may be necessary if silver prices are to be kept from advancing. I shall welcome any suggestions you may have on this matter.

Sincerely yours,

" Leon Henderson

Leon Henderson Administrator



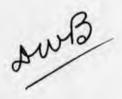
## THE UNDER SECRETARY OF THE TREASURY WASHINGTON

April 25, 1942

#### ME ORANDUM FOR THE SECRETARY:

Senator McCarran of Nevada has called me on two different occasions asking if the Treasury is planning to recommend to the Congress that the silver legislation be repealed. I have told him that you have expressed your views on this matter on a number of occasions before committees in Congress and I have no knowledge of any plan to submit a recommendation on the matter.

He asked me to ascertain from you if there were such a plan in mind and if so could be have a conference with you before any such proposed legislation is submitted.





380

Mr. White reported by memo 4/27

finished

April 25, 1942

TO:

DR. WHITE

FROM:

THE SECRETARY

How about silver legislation?

APR 25 1942

My dear Mr. Vinson:

Receipt is acknowledged of your letter of April 16, 1942, enclosing a copy of the report of the Naval Affairs Investigating Committee on the fire and capsising of the U. S. S. LAFAYETTE, formerly the T. E. L. NORMANDIE.

Your courtesy in making a copy of that report available to me is greatly appreciated.

Very truly yours,

(Signed) E. Sorgenthau. Jr.
Secretary of the Treasury.

Honorable Carl Vinson,
House of Representatives.

BSM: tb 4/21/42 The file m.m.C.

COM. IN COMMON C

MELVEN J. MARK, METER, JAMES W. MICT, CHES. W. T. GEORGE, J. MICH, M. T. GEORGE, J. MICH, M. M. M. GEORGE, M. G. M. G. M. GEORGE, M. G. M. GEORGE, M. G. M. G. M. GEORGE, M. G. M.

ANTRONY J. DIMOND, ALASK. BANGEL W. KING, HAWAII BELIVAS PAGAN, P. H. House of Representatives H. S. Naval Affairs Intrestigating Committee Washburton, D. C.

April 16, 1942

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

My dear Mr. Secretary:

I have the honor to herewith transmit for your information and guidance a copy of the report of the Naval Affairs Investigating Committee on the fire and capsizing of the U.S.S. "Lafayette", formerly the T.E.L. "Normandie".

The report was unanimously adopted by the Committee, with a reservation, as stated in the record, by Committee Members Shannon and Bradley.

Very trul yours,

Carl Vinson

INo. 2061

# REPORT ON THE FIRE AND CAPSIZING OF THE U. S. S. "LAFAYETTE"

# REPORT

OF THE

# SUBCOMMITTEE OF THE COMMITTEE ON NAVAL AFFAIRS

FIRE AND CAPSIZING OF THE U. S. S. "LAFAYETTE,"
FORMERLY THE T. E. L. "NORMANDIE"

# HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS SECOND SESSION

PURSUANT TO

# H. Res. 162

A RESOLUTION AUTHORIZING THE COMMITTEE ON MILITARY AFFAIRS AND THE COMMITTEE ON NAVAL AFFAIRS TO STUDY THE PROGRESS OF THE NATIONAL-DEFENSE PROGRAM

Printed for the use of the Committee on Naval Affairs



[No. 206]

# ( REPORT ON THE FIRE AND CAPSIZING OF THE U. S. S. "LAFAYETTE"

# REPORT

OF THE

# SUBCOMMITTEE OF THE

COMMITTEE ON NAVAL AFFAIRS

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# HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

PURSUANT TO

# H. Res. 162

A RESOLUTION AUTHORIZING THE COMMITTEE ON MILITARY AFFAIRS AND THE COMMITTEE ON NAVAL AFFAIRS TO STUDY THE PROGRESS OF THE NATIONAL-DEFENSE PROGRAM

Printed for the use of the Committee on Naval Affairs



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1942

# ergoo

MEMBERS OF THE SUBCOMMITTEE, COMMITTEE ON NAVAL AFFAIRS, INVESTIGATING FIRE AND CAPSIZING OF THE U. S. S. "LAFAYETTE" (EX-"NORMANDIE")

TATE OF STREET

PATRICK H. DREWRY, Chairman

ED. V. IZAC LANSDALE G. SASSCER JAMES J. HEFFERNAN MELVIN J. MAAS JAMES W. MOTT GEORGE J. BATES

EDMUND M. TOLAND, General Counsel, Naval Affairs Investigating Committee WILLIAM G. SYMMERS, Special Counsel to the Subcommittee JOSEPH F. KELLY, Special Investigator for the Subcommittee

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REPORT OF SUBCOMMITTEE OF COMMITTEE ON NAVAL AFFAIRS ON THE FIRE AND CAPSIZING OF THE U. S. S. "LAFAYETTE." FORMERLY THE T. E. L. "NORMANDIE"

#### I. INTRODUCTION

1. The investigation.
Under authority of House Resolution 162 of April 2, 1941, and pursuant to a resolution introduced in the Naval Affairs Committee by Representative Bates, of Massachusetts, on February 19, 1942, a subcommittee of the Naval Affairs Committee was appointed to investigate and report on the facts and circumstances of the fire on the U. S. S. Lafayette, formerly and hereinafter called the Normandie, which burned and capsized at New York on February 9, 1942. The resolution being approved by the committee unanimously, the chairman, Mr. Vinson, appointed the following subcommittee: Patrick H. Drewry, chairman, Edouard V. M. Izac, Lansdale G. Sasser, James J. Heffernan, Melvin J. Maas, James W. Mott, George J. Bates.

This committee met on the afternoon of the day on which they were appointed, and planned its procedure for the investigation. It appointed Mr. William G. Symmers of New York as its special counsel. The following weeks hearings were held in Washington, and the ground work was laid with general statements from representatives of the Navy Department, the Attorney General's office the Federal Bureau of Investigation, the Coast Guard, and the Maritime Commission. The next 2 weeks hearings were held in New York, where full and complete investigation was made of all the facts and circumstances surrounding the burning. The investigation included a general survey of conditions bearing on the protection of the water front in general from fire and sabotage. Witnesses included Admiral Adolphus Andrews, commandant of the Third Naval District, representatives of the district material office, and the Coast Guard. Representatives of the Fire and Police Departments of New York City, the Federal Bureau of Investigation, the Office of Naval Intelligence, the contractor, Robins Dry Dock & Repair Co., and some subcontractors were called. In addition, representatives of news-papers, including reporters who had written the news stories, and others whom the committee were informed, by many sources, could throw some light on the investigation, testified. In all, approximately 58 witnesses appeared before the committee and statements were obtained from approximately 300 additional witnesses by the committee's special counsel and investigators. In addition, the committee incorporated into its record the results of independent investigations conducted by the Federal Bureau of Investigation, the Bureau of Fire Protection of the New York City Fire Department, the police department, and the Collector of the Port of New York.

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The investigation was most thorough and complete, the committee concentrating on its effort to obtain the facts and receiving the most prompt and courteous cooperation and assistance from all of the agencies above mentioned. In this connection, also, the committee wishes to acknowledge the valued assistance and cooperation of Mr. Symmers, as counsel, and Joseph F. Kelly, of the United States Maritime Commission, who served as investigator to the committee.

The committee's report of the facts with reference to the Normandie and the important events leading up to and including the day of the

fire is as follows:

2. History and description of the "Normandie."

In the competitive struggle between the nations of the world to build the world's "largest, finest, and fastest" ship, the Normandie was the answer of France. England afterward put in rival claim with the Queen Mary and the Queen Elizabeth. The keel of the Normandia was laid at St. Nazaire, France, in 1931. She was launched in 1932, and completed her first trans-Atlantic crossing in the summer of 1935.

Because of threats and the subsequent advent of war between France and Germany, the Normandie had remained in idle status at her berth, pier 88, North River, New York City, since August 1939.

The Normandie is a quadruple-screw turbo-electric vessel 1,027 feet in length, of 80,000 gross tons, with 160,000 horsepower and capable of a speed of over 30 knots. Her normal crew complement was about 1,345 officers and men and she had a passenger capacity Her normal cargo capacity was 11,800 deadweight tons.

of 1,972. Her normal cargo capacity was 11,800 deadweight tons. The Normandie had a sun deck, a boat deck, a promenade deck, a main deck and seven decks lettered from A to G, both inclusive, below the main deck. The promenade deck was devoted principally to passengers' staterooms and recreation rooms and contained a grand salon or lounge amidships. The fire started in the salon.

The Normandie was not a fireproof vessel, nor is it likely she was ever considered such, although she was constructed under specifications aimed to make her as fireproof as was deemed by her builders at the time practicable and commensurate with the requirements of a

luxury passenger liner.

The Normandie was equipped with an elaborate fire-detection system. She was divided into four main sections, each a separate unit for the fighting of a fire and intended to isolate any fire in that section. The four sections were marked roughly by the four main transverse watertight bulkheads which extended from the keel to points approximately 8 feet above the waterline. So-called fireproof bulkheads and fire-retardant doors extended more or less vertically The various upward from the four main watertight bulkheads. decks and bulkheads divided the four sections of the ship into approximately 36 aubsections and the ship was further divided into 126

elementary fire sections.

The heart of the fire-prevention system was a central fire-control station on B deck, at which a watch was maintained and from which a fire-patrol system was supervised. It was customary at all times for the French Line to have at least one man stationed in the fire-control station and for members of the fire detail of the crew to patrol the ship. Their progress was noted on the control board of the central fire station by a series of lights which indicated their progress as the men

made rounds and progressively pushed buttons at 84 substations absorbed the ship. When a round was completed, the lights of the throughout the ship. When a round was completed, the lights of the control board could be cleared and a new round would be commenced.

In addition to the members of the fire detail making the patrols, a

fire brigade composed of members of the fire detail not on patrol duty or duty at the fire-control station, had quarters on the main deck. The presence of a fire, detected by a member of the fire patrol, could be reported to the central fire-control station and to this fire brigade by telephone or by the ringing of an alarm which sounded in the main fire station, and in the quarters occupied by officers and men of the fire brigade.

There were about 224 ship's fire alarms, of which at least one was

fitted in each elementary fire section.

In the event of a serious fire, and for use in connection with general fire drills to be participated in by the entire French crew, the ship was also equipped with a Klaxon general fire alarm system designed to be heard generally throughout the ship; this could be turned in on the bridge.

As a further precaution when the Normandie was in New York, the French Line leased from the American District Telegraph Co. a telegraphic alarm box. It was installed on the bridge, and provided a direct telegraphic alarm system to the New York Fire Department,

The ship had 32 main fire cupboards and 211 general fire cupboards. The main fire cupboards were each equipped with two portable Rodeo sets of extinguishing apparatus, and such items of fire-fighting equipment as belmets, gas masks, special nozzles, extra lengths of hose, and tools. There were 504 hose connections, of which two were located at each of the respective 211 general fire cupboards, which also contained portable fluid extinguishers of 2.2 gallons.

On the north side of pier 88 there were 74 fire hose outlets, to which

2% inch hoses could be hooked up, with city water pressure.

### II. THE EVIDENCE

1. The Coast Guard.

The French Line remained in possession of the Normandie, which was commanded by French officers and manned by a French crew, until May 15, 1941. Then the Tressury Department, acting under international law, ordered a detail of about 150 Coast Guard men on the vessel and at pier 88 to insure her safety and guard against sabotage. On November 1, 1941, the Coast Guard was transferred from the Treasury to the Navy Department, but its organization remained intact, and the detail on the Normandie was continued. On December 12, 1941, the Coast Guard, acting on directions authorized by the Children and the Coast Guard, acting on directions authorized by the Children and the Coast Guard. ized by the Chief of Naval Operations, removed the French crew from the vessel and took complete possession and control.

From May 15 until December 12 it had been the practice of the Coast Guard detail on the Normandie merely to stand guard on the The management of the boilers, machinery, and other equipment was left to the French crew. During this period the Coast Guard men became as familiar with the ship and her operation as was

practicable in the circumstances, and by observation alone.

After December 12 the Coast Guard assumed the task of maintaining steam, the duties of the fire watch, and all other matters relating to The Coast Guard detail the maintenance of the ship in idle status.

was increased, from time to time, so that on the day of the fire there were 6 Coast Guard officers and 275 Coast Guard men assigned to the

ship.

(a) The Coast Guard fire detail.—The Coast Guard fire detail consisted of 36 men and 4 petty officers assigned for the sole purpose of fire protection. These men were divided into 4 watches of 9 men each and were stationed as follows: (1) One petty officer in charge; (2) 1 man at the security switchboard, central fire-control station; and (3) 8 men making continual rounds of the four sections of the ship. This arrangement was patterned on the French system. Those of the fire detail not on watch, or on leave, remained on call at their quarters on the main deck, near the main fire locker.

At the time of the fire on February 9 there were 9 members of the Coast Guard fire detail on watch, and of the other 27 aboard, approximately 8 mer had been granted liberty or were absent for some other

CAUSE.

(b) Fire drills.—During the period up to December 12 the Const. Guard detail did not participate actively in the fire drills held by the French crew. After December 12 it was oustomary for members of the Coast Guard fire detail to hold fire drills as frequently as every other day. The remaining two hundred and forty-one-odd members of the Coast Guard crew did not participate in these drills; they had no fire stations or standing orders in the event of fire.

No thorough systematic check of the fire hoses or fire extinguishers was made by the Coast Guard, although "spot" checks were made

from time to time of portions of this equipment.

2. Requisition by Maritime Commission and transfer to Navy.

On December 16 the United States Maritime Commission formally requisitioned the Normandie and took legal title and possession. The Commission requested the Coast Guard detail to remain aboard, which it did. On December 24, the Maritime Commission transferred the Normandie to the Navy Department, and in a letter dated February 7, 1942, the Secretary of the Navy confirmed to the chairman of the Maritime Commission that the Navy Department had accepted the vessel and "full responsibility" therefor as of December 16. The Coast Guard detail was continued.

Coast Guard detail was continued.

(a) Inventories and surveys of fire-fighting equipment.—Between December 17 and 26 the Maritime Commission conducted a joint inventory with representatives of the French line of the fire-fighting equipment aboard the Normandie. This inventory was merely to determine the market value of the equipment, and no tests were made

as to its actual condition.

Some time in January, the commander of the Coast Guard crew requested a representative of the Navy's district material office to have each of the fire extinguishers on the Normandie weighed to determine their contents and the necessity of refilling. He was advised that a survey of all fire-extinguishing equipment on the vessel

was to be conducted by a contractor, Walter Kidde & Co.

By January 26, Walter Kidde & Co. had made a survey of the ship's fire-fighting equipment, and in a letter of the same date, delivered to a representative of the district material office, reported that only 10 of the 666 fire extinguishers available as of that date on the vessel were built according to American design and for which replacement parts were obtainable.

It reported:

All of the other units are of foreign make and, therefore, any mechanical parts which might be required to put these estinguishers in first-class condition would have to be specially made \* \* . In addition, any identifying marks or operating data are completely missing from all of the foreign-type equipment so that, unless the operator was thoroughly familiar with each type extinguisher, there would be considerable loss of time in determining its operation and application.

The survey report further stated that 98 Rodeo-type extinguishers were not fitted with safety outlets and did not conform to American

standards.

The survey report further stated that only three or four of the extinguishers had been tested, and it estimated that only approximately 50 percent of the extinguishers were in good condition. Accordingly, the company recommended that all of the foreign-type extinguishers in the ship be replaced with American equipment. No final action as to replacing the French-type extinguishers was made by the Navy

authorities or by Robins to the date of the fire.

Walter Kidde & Co. was instructed by a representative of the district material office, however, to replace the French-type hose connections on the vessel with American-type fittings. The work was done under the supervision of the district material office, which issued oral directions that the change-over be systematic so that at all times there would be either a French-type coupling to fit on the French-type valve or an American-type coupling to fit on to the American-type valve at each standpipe or hydrant on the ship. Because of the incomplete stage of the work on February 9 many of the hoses on the Normandie still had French couplings.

3. The Conversion Contract.

(a) Directive of Bureau of Ships .- On orders from the Chief of Naval Operations, the Chief of the Bureau of Ships issued on December 27, a directive to the commandant, Third Naval District, for the coversion of the Normandie to a naval auxiliary. This directive stressed urgent need for the vessel and requested that the conversion be completed at the earliest practicable date; it ordered that the conversion be accomplished with the least possible changes in the existing

ship's structure and installation.

The formal directive had been preceded by oral telephone conver-sations between representatives of the Bureau of Ships in Washington and the district material officer of the Third Naval District, whose responsibility it was, by virtue of his office and position, to supervise and oversee the work of the conversion contractors. Thus, while the directive was issued to the commandant, it was actually received by the district material officer, a member of the commandant's staff. In In this regard, Navy Regulations, article 1482, section 2, General Administration, provide:

(1) In the administration of affairs in the District, the commandant shall not (1) In the administration of affairs in the District, the commandant shall be personally supervise the details of the work or administration of the several groups or units, but will transact necessary business with the officer commanding the group or unit. These groups or units will be coordinated and every effort will be made to develop complete unification and cooperation among the several groups or units in regard to all matters requiring joint action.

(4) (a) The responsibility for the organization and efficient operation of all administrative units within awal district, \* \* \* rests with the officer in direct command of such units.

direct command of such units

(b) In the administration of affairs with his district, the commandant shall not direct, nor shall he be responsible for the technical work being carried on by any of the various organizations, but the head of each administrative unit will keep him informed regarding the general nature and scope of the work carried on and supply him with all information that will be of value in formulating plans for the coordination of all naval activities within the district, for the coordination relating entirely to the technical work of any of the establishments referred to in paragraph 4 (a) shall be carried on direct with the Bureau entirely concerned.

Acting under the directive of December 27, the district material officer, with the approval of the Bureau of Ships, arranged for the conversion work to be done under contract with Robins Dry Dock & the Normandie was too large to be accommodated at any drydock or shipyard in the New York area, it was decided that the work would be accomplished at pier 88, which was considered, for the purpose of the conversion, as being an "extension" of the Robins shipyard.

The district material officer assigned a lieutenant commander in the Naval Reserve as his naval inspector on the Normandia. inspector, with nine assistants, was charged with responsibility of supervising the contractor and allocating the specific conversion jobs

The contract under which Robins agreed to perform the work had been entered into on September 6, 1940, between Robins and the Bureau of Supplies and Accounts of the Navy. It was known as a time and material contract. It was a blanket contract under which the contractor could be assigned work from time to time for a consideration to be determined as each job arose. The form and provisions were the standard in use by the Navy Department for its various contracts with other shippards in the New York area and Under this contract, Robins agreed to do throughout the country. the specified conversion work for a maximum estimated sum of \$3,890,005.

Article 11 (a) of the contract provided:

The contractor shall exercise the highest possible degree of care to protect the vessel from fires. To this end the contractor shall maintain an adequate system of inspection over the activities of welders, burners, riveters, painters, plumbers, and similar workers, particularly where such activities are undertaken in the vicinity of the vessel's magazines, fuel-oil tanks, or store rooms containing inflammable material.

\* \* At least four 2½-inch-diameter hose lines shall be maintained between the vessel and the above (two forward and two aft), ready for immediate use at all times while the vessel is berthed alongside the contractor's pier, or in the drydock or on the marine railway \* \* The contractor shall maintain a fire watch on the vessel at all times untisfactory to the naval inspector. the naval inspector.

The contract required that at least four 2%-inch diameter hose lines be maintained between the vessel and the shore, two forward and two aft, "ready for immediate use at all times." The contractor connected four 21 inch diameter hoses from pier 88 to the Normandia. They ran from hydrants on the pier to stand-pipes on the forward and after starboard side of the vessel. These were not standard fire hoses with nozzles, but they made it possible for pressure from the city water mains to be hooked into the ship's fire mains and run through

the ship's system.

Todd Shipyards, Inc., the parent or holding company of Robins

Todd Shipyards, Inc., the parent or holding company of Robins and other shippard corporations, had in its employ a fire superintendent, John T. McElligott, an experienced fire fighter and former fire commissioner of New York City. He made no survey of the

Normandie, under the conversion contract, and considered that his duties were restricted to shipyard activities, in spite of the fact that the Normandie was being converted under a standard shippard contract, and pier 88 was considered to all intents and purposes as an "extension" of the shippard.

(b) Robins' fire watch.-The contract with Robins specified that a fire watch "satisfactory to the naval inspector" should be present at all burning and welding operations. Robins' fire watch assigned to the Normandie consisted in all of a group of unskilled men, who, according to Mr. McElligott, could learn their job in "10 minutes".

As their title implied, they were more in the nature of fire watchers than fire lighters and any incipient fire which they could not put out by primitive methods would have to be left to others. The Robins' fire watch on February 9 was composed of about 50

Their duties were to stand by burning or welding operations, and to this end 1 member of the fire watch was supposed to be pres-

ent at each welding or burning job.1

(c) Aliens.—The Robins' contract further provided in article 24:

The contractor shall, whenever directed by the Secretary of the Navy, report to the Navy Department the citizenship, the country of birth, or the alien status of any or all of his employees at the plant, factory, or site of the work and/or materials covered by this contract.

On December 18, 1941, the district material officer submitted a questionnaire to all naval contractors in the Third Naval District requesting a list of the names, addresses, and nationalities of all aliens employed by the contractor, together with other information relating to such employees. Robins duly responded to this questionnaire, and the district material officer forwarded Robins' list of alien employees to the district naval intelligence office. In addition to the 1,750 employees of Robins on the day of the fire, there were 675 employees of some 30 subcontractors. No list of subcontractors' employees was requested by or submitted to the Navy prior to the fire, nor was any investigation made with respect to them. A list of the subcontractors

is contained in appendix A hereto.

On the day of the fire, Robins employed one enemy alien on the Normandie, and his employment had been approved by the Navy Department. There were four enemy aliens, and a number of employees whose alien status was uncertain, employed by subcontractors. Their names had not been submitted to the Navy Department for approval. Subsequent investigation of such aliens by the Federal Bureau of Investigation does not indicate that any of them were en-

gaged in subversive activities.

On the day of the fire there were approximately 50 huming at welding jobs to be undertaken in various parts of the chip; there were approximately 111 burners and welders, some of whom were working in groups or on jobs within close preximity of one another, in which cases only 1 fire watch would be assessed in seanch by the entire group. They were entomatify equipped with 1 or more ballow weles backets and where operations were conducted in the vicinity of infinantiable materials, they were also supposed to be equipped with circular meets shaleds and asherts sheets to ward off the firing spacks and to have such the equipped with circular meets shaleds and asherts sheets to ward off the firing spacks and to have such the equipped with circular meets the entertaken ones. What was adequate was left to the theoretism of the fire watch.

Testimony of Robins' employees, respectable for or experienced in burning and welding operations. Testimony of Robins' employees, respectable for or experienced in burning operations to indictate that no huming operations is the indictates that codinary proteoner and caution would dictate that no huming operations to material without adequate assignately or within a distance of 10 to 15 feet even with such entegrateds, and in this connection the testimony was that sparks from a burnier's force testionarity may be expected in all directions to a distance on to 15 feet. Suffequently in such surner's force testionarity may be expected in all directions to a distance on to 15 feet. Suffequently in such surner's force testionarity may be expected in all directions to a distance on to 15 feet. Suffequently in such surner's force testionarity may be expected in all directions to a distance on to 15 feet. Suffequently in such surner's tools the surner's force testionarity in such a distance of 10 to 15 feet. Suffequently in such surner's force testionarity may be expected to a distance of 10 to 15 feet. Suffequently in such surner's force testionary was that the surner's control of the surne

(d) Relationship between contractor's employees and Navy personnel. Article 27 (c) of the contract provided:

Naval personnel assigned to duty on the vessel undergoing repairs and/or alterations shall be permitted on the vessel at all times, but such personnel shall not interfere with the work covered by job orders, or with the contractor's workmen in the prosecution of such work.

In keeping with this provision of the contract, neither the com-manding officer of the Coast Guard detail, nor the commanding officer of the prospective naval crew had any authority to interfere with the manner in which Robins' employees or subcontractors performed the All suggestions in this connection had to be submitted to the naval inspector, who, in his discretion, could accede to or reject any auggestions made.

(e) Limitation of contractor's liability.-Article 12 of the contract

purported to limit the contractor's liability for-

any and all damage of whatsoever nature \* \* \* that results from his fault or negligence

to an amount not in excess of \$300,000. It further provided that the amount would-

be determined by the Chief of the Bureau of Ships after negotiations with the contractor, provided the amount is adequate in the judgment of the Bureau of Ships to protect the interests of the Government.

No adjustment was made by the Bureau of Ships to increase the limitation of the contractor's hability from \$300,000 even though the conversion work involved an estimated expenditure of nearly \$4,000,-000 on a vessel said to be valued at approximately \$53,000,000. The explanation of the Chief of Bureau of Ships for this is that the cost of a contractor's insurance would, in any event, be absorbed by the Government under the contract, and that it was in keeping with the Navy Department's practice of "self-insurance" not to require the limitation amount to be raised.

4. The prospective Navy crew.

On January 31, 1942, Capt. Robert C. Coman, United States Navy, reported to the *Normandie* as the prospective commanding officer under orders to be prepared to assume command on the date set for the vessel's commissioning, February 11. Under him was assigned a skeleton force, mostly engineer ratings, which was gradually aug-mented until February 9 the prospective naval crew was about 500. less than half the number required for efficient operation of the vessel at sea. Of these 500 men, the majority had not been on the vessel more than 2 or 3 days at the time of the fire.

Until the date set for the actual commissioning of the vessel, the prospective commanding officer and his crew had no affirmative duties aboard the ship other than to attempt to familiarize themselves with the vessel. This was made clear to the prospective commanding officer when he first boarded the vessel. He was handed a paper by the naval inspector entitled "General Outline of Duties of a Prospective Commanding Officer of an Auxiliary Type Vessel." This paper, issued from the Bureau of Ships, provided in part:

It is most important that a prospective commanding officer understand correctly his function, his authority, and his limitations. A prospective commanding officer and his personnel are official observers. The responsibility for the work being done on the ship is vested either in Boreau of Ships (whose local representative is the Supervisor of Shipbuilding) or in the district commandant (dis-

ticl material officer and assistant district material officer \* ). The prospective commanding officer must carefully avoid giving any orders to the building yard. As an inspector and adviser, however, the prospective commanding officer can be of much help. He mustn't hesitate to bring to the attention of those responsible anything he considers defective—workmanship, improper location of equipment, or desirable items not listed for accomplishment. All written communication with the building yard must be either from or through the local responsible Navy representative \* Remember that a prospective commanding officer is not yet a commanding officer. The district commandant in most cases is the commanding officer of the parsonnel assigned to the unit. For local administration and to relieve the commandant of necessary details, the prospective commanding officer will function as commanding officer to the extent of authority delegated to him by the commandant.

No authority of the commandant was delegated to the prospective commanding officer. From time to time he consulted with the naval inspector, and made suggestions with reference to the conversion work. It was not his function, however, to supervise the details of this work.

5. Dates for conversion completion,

In response to the request contained in the Bureau of Ships' directive of December 27, the district material officer first reported to the Bureau of Ships that he estimated the conversion work might be completed by January 31, and the original schedule was laid out on

that basis.

On January 9 the Chief of Naval Operations communicated with the Chief of Staff of the Army and offered the vessel to the Army for use as an Army transport. This offer was accepted on January 14, with the understanding that the conversion would be completed by the Navy. The Army was invited, however, to send such marine engineers and naval architects of the Army to the vessel to recommend such changes in the conversion work as they might deem necessary or suitable for their purposes. Accordingly, a group of Army specialists inspected the ship and made a number of suggestions as to changes in conversion work which they deemed necessary if the vessel was to be operated by Army personnel. On January 26 the Chief of Naval Operations requested that the vessel be retained and operated by the Navy after its conversion, and the Army Chief of Staff immediately acceded to this request. The result of this change of plans was that the conversion work on the vessel was set back or delayed for an estimated period of 2 to 3 weeks. By this time the district material officer had advised the Chief of the Bureau of Ships that it would not be practicable to complete the conversion until about February 28, but orders were issued by the Bureau of Ships, on instructions of the Chief of Naval Operations, that she should be commissioned on February 14. This necessitated the placing of many additional workmen on the vessel.

The size of the Normandie was such as to require many weeks, and, more properly, months, for a crew to familiarize itself with the ship and to be prepared to function as an efficient unit thereon. In recognition of this factor, and in the absence of a complete crew having been assigned to him, the prospective commanding officer, about February 5, consulted with the district material officer and expressed his anxiety over attempting to take the vessel out on February 14. Because of this objection, and the incomplete state of

the conversion work, the district material officer advised the commandant and was authorized by the latter to communicate with Washington and express his views. In a telephone conversation with the Assistant Chief of Naval Operations, the district material officer requested that the scheduled date of sailing from New York be postponed for an additional 2 weeks. No such action was authorized by the office of Chief of Naval Operations, however.

On February 6 the district material officer and the prospective commanding officer made a trip to Washington and conferred with the Chief of Naval Operations and the Chief of Bureau of Ships, with the intention of again urging that the sailing date be postponed. They were advised that plans would be changed so that certain top hamper of the Normandic might be removed to improve her stability, and that this work would take another 60 or 90 days, and thus afford ample time for completion of the other work and preparation of the vessel

for sea.

The district material officer immediately telephoned the contractor that the sailing date had been postponed, and accordingly many men, who otherwise would have been kept on the vessel to rush the conversion work over the week end, were let off. On their return to New York on February 7, however, the district material officer and the prospective commanding officer were advised that the plane to remove the top hamper had been abandoned, and the vessel was to sail on the 14th. This reversal of the decision of the day before necessitated the calling back of workmen and further added to the confused state of affairs which was prevalent on the day of the fire, February 9.

Still concerned with the danger of endeavoring to get the vessel out by February 14, the district material officer and the prospective commanding officer made an appointment with the commandant for 3 p. m. on February 9, at which time they hoped to persuade the commandant to take a definite stand. At the same time, the Chief of the Bureau of Ships had arranged to consult with the Chief of Naval Operations to the end that the sailing date might be postponed. In the meantime, the contractor and subcontractors were rushing their efforts to have the vessel prepared for the date specified. Within a few minutes of the time set for the respective conferences in New York and Washington, the parties concerned were advised that a fire had broken out on the Normandie, and the meeting never took place.

6: The fire.

The fire on the Normandic started at about 2:35 p. m. on February 9, 1942. The events leading up to the fire, and the activities of

principal witnesses are described below in some detail.

(a) Events leading up to the five.—About February 1, the naval inspector ordered approximately 1,140 bales of life preservers to be delivered to the Normandie from the navy supply depot in New York. These life preservers, made under standard Navy specifications, were canvas covered and filled with an oily Javanese cotton-like texture known as kapok, which is highly inflammable. The life preservers were packed in bales which weighed approximately 30 to 35 pounds each. They consisted of an outer covering of burlap and an inner wrapping of tarry paper. These bales were delivered to the vessel directly from the navy supply depot over a period of 3 days from about February 1 and were ordered to be stored in the main salou of the vessel.

There is some conflict of testimony as to whether the selection of the place of storage was made by Robins' assistant superintendent, Walsh, on his own initiative, or by Walsh on directions of the naval inspector. This conflict is immaterial since after the bales were so stored, their presence was noted by the naval inspector, by the lieutenant commander of the Coast Guard, and by the prospective commanding officer. It was intended that the life preservers be stenciled on the ship, after which they were to be distributed throughout the various quarters. Because of the crowded and congested condition of the pier, it was not, at the time, thought practicable to store the life preservers there.

Both the prospective commanding officer and the lieutenant commander of the Coast Guard realized that the life preservers created a fire hazard in the main salon, and the latter instructed his men to keep an especially careful look-out against smoking in the vicinity. He was also assured, either by the naval inspector or a representative of the contractor, that no welding or burning operations were con-

templated in the salon.

The main salon was a room approximately 100 feet long, 85 feet wide, and 35 feet high, amidships on the promenade deck, one deck below the boat deck. In this room there were four elaborate metal stanchions designed as indirect lighting fixtures. There were four large windows on the port and starboard sides, and at each side a door leading from the center of the salon to the promenade.

Piles of canvas-bottomed standee bunks were lying in rows along the port and starboard sides of the promenade deck, outside of the salon

and smoking room.

There were no fire hose or fire extinguishers in the salon proper as part of the equipment although both were situated in within close proximity on the starboard and port sides of the promenade deck.

The hand fire-extinguishing equipment on the promenade deck was as follows: 41 2%-gallon fire extinguishers, 14 12-pound Rodeo portable extinguishers, 2 25-pound Rodeo extinguishers, and 8 15-

pound Lux extinguishers.

About February 7 the prospective commanding officer consulted the naval inspector and suggested that since the salon was to be used as a general recreation room for troops, the carpet therein should be removed and replaced with battleship linoleum. At the same time it was suggested that the four metal stanchions, or indirect-lighting pillars, should be cut at a point about 20 inches from the deck, at the top of the coaming, as a safety measure to prevent injury to troops, and in order that the bases might be used as seats or tables.

Until this time no one connected with the Normandie had any knowledge that any conversion work was contemplated in the grand salon or particularly that any burning or welding was to take place there, and after the decision to make the conversion determined by the prospective commanding officer and the naval inspector, the lieutenant commander of the Coast Guard unit was not advised

On orders of the naval inspector, a subcontractor, the Tri-Boro Carpet Co., was employed by Robins to remove the carpet from the main salon and lay the linoleum. This work was commenced on Euleum. February 8 and continued on February 9 up to and including the time of the fire.

On the morning of February 9, Herman Minikine, vice president of Robins and in charge of the conversion, was instructed by Wood, the naval inspector's assistant, to have the Robins' workmen burn the four metal stanchions in the main salon. Minikine instructed Alphonsus Gately, in charge of Robins' burners and welders, to carry out the order. Gately called together a force of men known as a chain gang. Derrick, who was a burner, and two fire watches. Nadel, supervisor of Robins' fire watches, was also present. The chain gang consisted of a "snapper," or subforeman, and eight unskilled laborers. The equipment of the group included the burner's oxygen and acetylene tanks and torch, two 3-gallon pails of water, an asbestos board about 2 feet by 3 feet, and a semicircular metal shield approximately 36 inches high. There were no fire extinguishers in the salon. The evidence is conflicting as to whether there was any fire hose laid out at the time, although there is some credible testimony that a 1½-inch hose, part of the ship's equipment, bad previously been and remained laid out from the port promenade and extended into the salon, but that this bose was not connected to the standpipe or fire main.

Each of the metal stanchions, which were ordered to be burned, weighed about 500 pounds. They were about 15 inches in circumference and rested on a base which rose approximately 20 inches from the deck. A coaming extended horizontally from the base about

18 inches.

The burning was directed to be done at the top of the base of the

stanchion, 20 inches from the deck.

The first burning operation was performed on the forward stanchion on the starboard side of the salon. For convenient reference this will be called stanchion No. 1. Stanchion No. 2, the second to be cut, was on the starboard side of the salon aft, stanchion No. 3 on the port side forward, and stanchion No. 4, the last to be cut, on the port side aft.

Because of the activities of the linoleum workers, the bales of kapok life preservers, which originally had been stored in the center of the salon, had been moved in clusters on the port side and were piled semicircularly around stanchions Nos. 3 and 4 and between those stanchions and the side walls or bulkheads of the salon. There was a passageway between the bales leading to the open door on the port

side of the salon.

The work was done as follows: The burner would cut through the stanchion to a point almost to the other side. The members of the chain gang would then, with the aid of three guide ropes, ease the stanchion over to prevent it from crashing to the deck until it rested at a 90° angle on the coaming. Next the burner would, in a very brief operation, which he testified did not take more than a half minute, burn or snip off the final metal clip of the stanchion, and the job would be completed. During the burning it was the duty of the fire watch to hold the asbestos board above the metal shield as a further precaution against flying or ricocheting sparks, and to stand by with the buckets of water. A small quantity of the water in the buckets was used to wet down the area around the base of the stanchion.

Since the protective semicircular metal shield was higher than the base of the coaming, it was necessary to remove the shield as the members of the chain gang eased the stanchion over to its vertical position just prior to the final burning operation.

The burning of stanchions No. 1 and 2 was completed without incident on the morning of February 9 between the hours of 10 and 12. It was estimated that it took approximately 20 minutes actually to

burn each stanchion through,

At about noon, Gately and his men knocked off for lunch, and Nadel, the chief of the fire watches was instructed to have a fire watch back on the job at 2 p. m. Nadel directed a member of the fire watch, not one of those present during the morning operations to report for duty in the main salon at 2 p. m. This man, John Venuto, arrived in the salon at 2 but saw no burner or burning operations. He concluded that none were to take place and proceeded to another part of the ship and another job.

(b) Activities at the fire.—Shortly after 2 p. m., Gately assembled his crew of men to burn stanchions No. 3 and 4. During this afternoon operation, there were only seven in the chain gang, one man having failed to report for work, and no fire watches present. Since the bales were piled closely around the stanchions, the men cleared away a space large enough to walk around by piling some of the bales on The piles of life preservers were placed at a distance stated by various witnesses to be from 3 to 8 feet from the point of burning.

Stanchion No. 3 was cut without incident, except for the fact that as it was eased over to its 90° angle, it crashed upon the metal shield, which in this instance had not been removed, and the shield was thereafter rendered useless. Gately testified that he obtained another metal shield and proceeded to the fourth and last stanchion with his

As there was no fire watch present, a member of the "chain gang," Collins, held the asbestos shield to prevent sparks from flying toward the bales. When the time arrived to let fall No. 4 stanchion, just prior to the final burning operation, Collins dropped his asbestos shield and climbed up on the bales to help the remaining members of the chain gang with the guide ropes. Prior to this, the metal shield had either been removed or knocked over to prevent it from being crushed from the weight of the falling stanchion. The stanchion was brought over to a 90° angle for the burner to start his final operation. The job was so nearly completed that Gately turned his back and started toward the smoking room to attend to another job. Likewise, the "snapper" of the "chain gang" had turned his back and started to walk away. The burner turned on his touch and and started to walk away. The burner turned on his torch and started to burn the clip which was the last piece of metal holding the stanchion to its base. This last burning operation was thus being performed without benefit of the asbestos board, the metal shield, and without a fire watch or the actual observance of the foremen on

the job.

The evidence again is conflicting as to whether there were only one or two waterbuckets lying beside the stanchion at this time, and it appears that one of the waterbuckets (if there were two) was only

half full.

It was during the last final seconds of the job that Collins saw a small flame darting upward from one or two bales nearest the base of the stanchion and nearest the point of the burner's operation. He

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cried "Fire." Then he and the other members of the chain gang first attempted to put the flames out with their hands. Gately, the burner, and the "snapper" did likewise and then all of these men, joined by other groups of workers in the salon, endeavored to stop the rush of the flames which were creeping rapidly over the fuzz of the burlap bales, by throwing them hither and you toward the center of the salon. In the opinion of fire experts, this had the effect of merely spreading the flames.

Seeing that the fire was getting ahead of them, Gately testified that, with a helper, he connected up and turned on the hose, which had been run into the salon from the port promenade, and played it on the fire. Other laborers brought in a hose from the starboard promenade, but the testimony is that only about a bucketful of water came out of it. Others stated that they obtained a hose which was brought in through the smoking room, forward of the salon. This hose likewise failed to function. A workman brought in a fire extinguisher, but threw it down in disgust after it failed to function.

In the excitement, just after the discovery of the fire, someone tripped over a bucket of water, spilling all or nearly all of its contents.

A member of the Coast Guard fire watch, a young and inexperienced recruit, who had passed through the salon within a minute or two prior to the fire, heard a group of Robins' employees shouting "Fire"; he returned to the salon, observed the flames, and proceeded to the ship's theater, where he turned in an alarm to the fire-control station by telephone. The fire had been under way about 10 minutes when this call was made. He then proceeded on his rounds and took no active part in fighting the fire for some time thereafter.

Martin, a Coast Guard seaman, was on duty at the central firecontrol station. He first heard of the fire not by telephone or alarm,
but from a member of the Coast Guard fire detail who, acting as a
messenger, reported it at the station orally. Martin endeavored to
telephone his immediate superior, Bach, the assistant security officer,
but could not locate him. Martin next called the fire brigade, and
phoned the distribution room, on D deck, instructions to turn off all
air ventilators. He also telephoned the bridge and instructed the
Coast Guardman on duty there to turn in the general fire alarm.
The man on the bridge reported back that he could not find the
switch.

There were two fire alarm switches on the bridge for the ship's general alarm system. These had been disconnected for several days prior to the fire by a contractor, apparently without the knowledge of any of the Coast Guard crew. The French Line had, under contract with the American District Telegraph Co., maintained the ship-to-shore fire alarm box which was located on the bridge of the Normandie, and which provided direct telegraphic communication for fire alarm purposes with the New York City Fire Department. On January 7, 1942, the marine superintendent of the French Line notified American District Telegraph Co. that it did not wish to continue this service for the obvious reason that the vessel was no longer the responsibility of or the property of the French Line, and on January 13 the fire alarm box was removed from the bridge. Lieutenant Commander Brooks was advised of this by his security officer some time after it had been removed, and had posted a notice at the gangway that the nearest city fire alarm box was on the pier. No request was made by any

naval or Coast Guard representative for the retention of the American

District Telegraph Co. fire slarm after January 13.

Some delay was occasioned in breaking out the Court Guard fire brigade, after the fire had been reported to the central fire control station, because about a week previously, owing to conversion work, the brigade had been moved from its headquarters on the main deck to temporary quarters below on A deck, two decks below the prom-enade deck. There was no direct telephone communication from the temporary quarters to or from the central fire control station, and accordingly, it was necessary for a member of the fire brigade to stand watch at the old quarters to receive messages from the control station, and transmit them in person to the members of the fire brigade on the deck below.

Rable, the Coast Guard security officer, had last been in the grand salou, prior to the fire, shortly after 1 p. m. The fire was reported to him as he was standing near the elevator on the promenade deck forward of the main salon. Rahle looked in the salon and saw a sheet of fire which covered the whole side of a pile of bales. He ran to the bridge and threw the two fire-alarm switches, intending to sound the fire alarm all over the ship. As previously stated, the alarm had been disconnected and his efforts were ineffective. Rahle then proceeded to the main fire locker, on the main deck, and began distributing fire extinguishers to workmen he found in that vicinity. He there met Bach, his assistant security officer, and turned these duties over to him, advising him to get his men as quickly as possible. Rable next dashed to the gangway and yelled to a policeman to turn in the city fire alarm. He then returned to the scene of the fire and assisted in efforts which were being made by a large group of workmen, Coast Guard men and Navy personnel to combat the flames.

Bach, assistant security officer, was on the starboard side of the promenade deck when he heard a report on the ship's loudspeaker system for all members of the fire watch to report to the main salon. He immediately rushed there and tound it in flames. He saw no hose in use at that time, but found some hose lying on the deck and tried to hook it to one of the valves. He was unable to do so, because there was an American-type fitting on the bose and a French-type fitting on the valve. He then proceeded to the temporary quarters of the fire brigade on A deck, broke out about 15 of his men who were there, went to the main fire locker on the main deck, issued out equipment, and proceeded with his men to the promenade deck and the scene of By this time the smoke was very thick in the salon, and the members of the fire brigade who had gas masks, and one or two who had asbestos suits, endeavored to enter the salon to get at the source of the flames. Because of the smoke and the fact that the ship's lights had been turned off in this section, the men could not see. They had no flashlights. Bach reported that their gas masks were They had no flashlights. Bach reported that their gas masks were ineffective. The efforts of the fire brigade were fruitless. He finally obtained a hose, although it had no nozzle, and played it on the fire.

Lieutenant Commander Brooks was proceeding down a passageway on A deck when he met Lieutenant Commander Scott, the naval inspector, and was advised by Scott of the fire. Brooks dashed up the stairway, took one look, and then went down the stairs and ordered one of his men to ring the city fire alarm from the dock. He then went to the grand salon and attempted to take charge of the operations

of his men, but was driven back because of the dense smoke. He remained in the vicinity of the grand salon for about 15 minutes and stated that he observed at least four streams of water being played into the salon from the starboard and port sides during this time. The smoke then forced him and his men to withdraw. Shortly thereafter, at about 3:15 p. m., the ship's power failed. From that time on no efforts were made to fight the fire with the ship's hose, since the fire pumps had stopped. By this time, the city fire department had taken over fire-fighting activities with its own equipment.

The naval inspector was in his office on A deck when advised of the fire by a Robins' employee. He proceeded to the promenade deck. When he arrived at the salon, he saw the workers endeavoring to beat the fire out with their hands and throwing bales into the center of the room. Realizing the seriousness of the situation, he went below and ordered a fire alarm sent to the city fire department. He then ordered Robins' vice president to get all of the workmen off the ship. He next proceeded to the dock and arranged for the clearing away of obstacles so as to permit the fire engines upon their arrival to have free access, and conducted firemen from the first and second

fire engines to the scene of the fire.

Orders were sent over the ship's loudspeaker system for all Robins' workers to leave the vessel. This order was repeated by word of mouth. Many of the Coast Guard and Navy personnel understood the order to be "everybody leave the ship" and some little confusion resulted. However, that many of the men on the vessel did their utmost in the circumstances to fight the fire is best evidenced by the fact that 285 persons, including 94 Navy and Coast Guard personnel, 38 members of the fire department and 153 civilian employees received medical treatment or hospitalization for various injuries, burns, smoke inhalation, and for exposure. One Robins' employee, a member of the fire watch, died as a result of falling from the sun deck to the boat deck.

(c) Engineers Department.—The Coast Guard chief engineer was about to leave his sleeping quarters when advised of the fire by two members of the prospective Navy crew. He immediately made his way toward the engine room via one of the ship's elevators. On his way down he encountered considerable smoke and got out on D deck for the purpose of stopping the blowers in the electrical distribution room. He ordered a machinist to proceed to the engine room and see that the fire pumps were started. He then went to the scene of the fire on the promenade deck and opened the electric circuits to prevent short circuits which would cripple other parts of the ship's electrical system.

The Normandie was equipped with 3 electrically driven pumps designed to deliver water pressure at 142 pounds per square inch. The normal pressure maintained by the Coast Guard, however, was approximately 60 or 70 pounds and this was stepped up to 100 pounds as soon as the fire was reported to the engine room. This pressure

was adequate for the ship's fire hose, while it lasted.

Because of the downdrafts through the ventilators, boiler uptakes and other apertures of the vessel, smoke from the fire on the promenade deck soon reached the engine room and forced the Coast Guard engineers to close down the fires and abandon the room at about 2:55 or 3 p. m. There was sufficient steam in the boilers at this time to permit the operation of the ship's generators and pumps for approximately 15 to 20 minutes after the fires were closed down in the The ship's electric clocks stopped at 3:15 p. m. which confirms that the ship's electricity and water pressure went off at that

(d) Fire doors .- At the after end of the main salon, leading into the smoking room and at the forward end, leading into the gallery and grand hallway of the ship, were moveable fire screens or doors. These doors could be closed manually and were intended to isolate and prevent the spread of any fire from the salon. During the fire one was closed, and the other partially closed. There is evidence that the after fire door burned through in about 5 minutes. The forward door, of a more durable type, d.d not burn.

(e) Responsibility and command at the fire.—It is difficult to imagine

a more confused state of affairs than that which existed on the Normandie at and during the course of the fire. Five hundred men of the prospective crew, unfamiliar, for the most part, with the ship and with no previously assigned stations, duties, or responsibilities, were under the command of the prospective commanding officer.

Two hundred and eighty-one Coast Guard officers and men, many

of them raw recruits, and of whom less than 40 had specific assignments and duties in the event of fire, were under the command of the

Coast Guard lieutenant commander.

One thousand seven hundred and fifty employees of Robins, of whom 50 were untrained men designated as "fire watchers," were under the supervision of the vice president of Robins and the assistant superintendent in charge of operations.

Six hundred and seventy-five employees of some thirty subcontractors were under the direction of their respective foremen or

In addition, there was the naval inspector, a lieutenant commander in the Naval Reserve, with nine civilian assistants, all apparently concerned primarily with allocating specific job orders to the contractors and subcontractors.

The naval inspector was the only naval authority on board the vessel with jurisdiction over the contractors and that, primarily, was in a supervisory capacity. He had no jurisdiction over the Coast Guard or prospective naval personnel nor did the officers in command of the latter units have any jurisdiction over him or any units other

than their own.

Shortly after 3 p. m. the commandant, the district material officer, the prospective commanding officer and the captain of the port, a Coast Guard officer, senior to the lieutenant commander in charge of the Coast Guard unit on the vessel arrived at the scene of the fire. Fire-fighting equipment of the city fire department had already arrived and the firemen were in action. Other officials were assembled at the pier, including the collector of customs, the mayor of New York, the fire commissioner, the fire marshal, and the police commissioner. All made various sorties and tours of inspection on and about the ship and pier. A central office was established on the pier, in the offices of the French Line, where conferences were held from time to time. French Line officials were consulted, including the former master of the *Normandie*. A salvage expert from Merritt, Chapman & Scott Wrecking Co. was called in.

The commandant did not consider himself either in charge of the situation or to be the responsible naval officer present. He had considered the Normandie to be under the jurisdiction of the Bureau of Ships and of the district material officer. He was unfamiliar with the Normandie, and prior to the fire had never been on board her nor received nor gave any orders with respect to her, other than of an advisory nature with respect to maintaining an adequate Coast Guard personnel aboard. Accordingly, he did not feel qualified to assume command and acted only in an advisory capacity. Orders were given, however, from time to time in his name and other naval and Coast Guard officers were under the impression that he had as-sumed the responsibility and command by virtue of his rank and presence. He considered the fire department to be in charge of the fire.

At the fire, the district material officer, an experienced technician and marine engineer, considered himself also to be acting in an advisory capacity, and issued orders only to members of his staff. The naval inspector received no orders from any source, although he stood

by in the conference room from time to time.

The lieutenant commander in charge of the Coast Guard unit looked to orders from the captain of the port. The captain of the

port considered the commandant in command.

(f) New York City fire department.—The first alarm received by the New York City fire department was at 2:49 p. m. from an alarm box located in the center of pier 88. While there is no conclusive evidence of the exact time the fire started, the best estimates are between 2:35 and 2:40 p. m. There was, therefore, most probably a delay of about 15 to 20 minutes between the start of the fire and the first alarm received by the fire department.

One and one-half minutes after the receipt of the first alarm, the first fire engine arrived at the scene. Upon the arrival of the first fire engine, a second alarm was ordered and turned in at 3:01 p.m. Other alarms followed at 3:02, 3:12, and 4:08 p.m., respectively.

By 4:15 p. m. there were approximately 36 mobile fire-fighting units of the city fire department at the Normandie. There were three fireboats, together with a number of tugboats privately owned, which played their hoses upon the ship's superstructure on the port-side. The first city fireboat arrived at 2:55 p. m., the second at 3:13, and the third at 3:27 p. m. These three fire boats poured an estimated \$39,420 gallons of water into the Normandie's superstructure over a period of 4 hours. In addition, undeterminable quantities were poured into the ship from the shore apparatus and from various privately owned tugboats. Much of the water, of course, rolled over the sides but a large quantity backed up along the upper decks and into the staterooms of the upper decks. By 3:30 p. m. the Normandie had taken a slight but noticeable list to port. and more water was poured into her superstructure the list gradually At about 6:30 p. m., the fire had been reported "under Most of the city fire equipment was sent home; the fire was as good as out, and the actual fire damage was relatively slight. But the Normandie's list to port had increased by this time to about 10 degrees. The fire department had effectively put out the fire. The danger of capsizing, then fully realized, was a problem properly left to the naval authorities.

7. The Capsizing.

The Normandie, in common with most large passenger vessels. was considered a very "tender" ship. Because of her low metacentric height, the shifting of a relatively small amount of weight from one side to the other could cause a noticeable list. She was not, however, a "top heavy" ship in the accepted sense. The district material officer was generally familiar with the stability characteristics of the vessel and had studied her blueprints and plans. On arriving at the scene of the fire, he immediately realized the danger of the vessel capsizing from the weight of water being poured into her upper decks.

This matter was discussed by the district material officer with the

commandant, officials of the French Line and others who participated in the conference-room discussions held in the French Line office on the pier. As a result of these discussions, the commandant at first considered it desirable to scuttle the ship to prevent her from cap-Since this ship was constructed without sea-cocks or sluice valves, orders were issued to the chief engineer of the Coast Guard unit of the Normandie, who had been consulted, to endeavor to scuttle her by removing the plates of the condensers in the engine room. The chief officer proceeded with a detail of men to the engine room, but found that it was too full of smoke to accomplish his mission. At the same time, on the suggestion of an officer of the French Line, the fire department was requested to pour water down the No. 1 hatch forward into the bottom of the ship.

The decision to scuttle was then abandoned. The experts had arrived at the opinion that if the vessel were scuttled, it would only hasten her capsizing. This opinion was based upon the general characteristics of the vessel, her "tenderness," her list to port, the fact that she was lying on a ledge (the north side of the slip having been dredged to a greater depth to accommodate the Queen Mary some time before) and the fact that the Normandie had no longitudal bulkheads to prevent "free water" from settling on her port side.

The abandonment of the decision to scuttle the ship was also influenced by the advice of the fire chief, who expressed the opinion to the commandant that scuttling might have the effect of causing the fire to spread from the vessel to the pier and along the water front

by reason of burning oil.

The district material officer, soon after his arrival at pier 88, obtained a rough plan of the ship's double-bottom tanks. He was advised by the Coast Guard engineer water tender that three of the starboard double-bottom tanks were empty. Since the district material officer had no plans of the ship, which indicated the exact location of these tanks from the outside of the hull, he made a rough estimate of their location and instructed the Robins' superintendent to have holes cut in each of them in order that they might be filled from the outside by first head of the control of the contr from the outside by fire hose. Because of the miscalculations, only four of the seven tanks were thus cut open. The effect of the water from the fire hose, in partially filling these tanks, had at most the temporary result of lessening the ship's list by a few degrees for a short period of time.

Because of the accumulation of water, principally in the promenade and A decks and in the rooms of those decks, the vessel had taken a list of about 10° by 6:30 p. m., by which time the fire had been reported

so far under control that the fire department had sent most of its men The fire department, on request of the district and equipment home. material officer, attempted to pump water from the spaces in the upper decks. The pumps used were not designed for the purpose and were ineffective. Efforts to obtain adequate pumps were unsuccessful; none were to be had.

By about 9:30 p. m. the Normandie's list had increased to approximately 15° to 17°, after which she took no further appreciable list for several hours. At about 12 the Normandie's list had increased to approximately 35° and water was found to be entering through several open ports and a garbage chute which were on the port side of the hull. Several naval and Coast Guard officers and men succeeded in closing some of these openings, but it was found impossible to close them all, under the conditions then existing.

At 12:30 a. m. the commandant issued orders for all bands to aban-

don ship; at 2:45 a. m., the Normandie capsized.

#### III. CONCLUSIONS FROM THE EVIDENCE

There was no evidence to indicate that the fire on the Normandie may be attributed to sabotage. Various rumors and reports were current immediately after the fire that the fire was caused by sabotage, that the hoses were slashed or cut, that hoses contained gasoline, that gasoline had been poured into the ship's sprinkler system, and similar stories. Careful investigation disclosed that these rumors and reports were entirely unfounded. The ship's hoses were not cut or slashed, but some of them did kink when water pressure was first put on them, not an unusual occurrence when fire hose is handled in haste and by inexperienced hands. There was no gasoline in any of the hoses, and the ship had no sprinkler system. There was a slight explosion in the ship had no sprinkler system. There was a slight explosion in the salon shortly after the start of the fire, which gave rise to some rumors. This explosion was caused by the effect of the fire upon the burner's acetelyne tank, which had been left behind in the confusion

when the workers were forced to quit the salen.

Opportunities for sabotage, or almost any subversive activity were, however, abundant on the Normandie. There was no adequate check made of the employees of the contractor or subcontractor and especially of alien employees. It was possible for individuals to board the ship without any credentials or identification other than a numbered badge indicating the name of the contractor or subcontractor by whom they were supposed to be employed. No investigation had been made as to the manner of the selection of subcontractors' employees and apparently no responsibility was fixed upon the employers with respect to selection of their personnel. That the fire may not be attributed

to sabotage is only indicative, therefore, of the fact that sabotages, if there were any, did not deem the time ripe for sabotage.

The fire unquestionably started from the sparks of the burner's blowtorch, which ignited the bales of life preservers within a few feet of the place of the place. of the place where the burner was working. Careful investigation of the persons who were in the salon at the time the fire started fails to disclose any reason to suspect that these men were intent upon subversive or sabotage acts, and confirms our opinion based upon all the evidence, that the fire was not started with willful or malicious intent. There is no escape from the conclusion, however, that the

gause and consequences of the fire are directly attributable to care-

lessness and lack of proper supervision.

The importance of the Normandie as a naval auxiliary should, in itself, have called for the exercise of the highest degree of care and competent organization and supervision, apart from any contractual obligations in that regard. Experience, also, should have served as a warning to those responsible for this vessel—the immediate experience of numerous previous small fires caused by burning and welding operations which had occurred on the Normandie-four within a week of February 9-and the experience of history, for it had been the fate of almost every comparable sister French liner to be destroyed by fire. Such vessels included the Georges Phillipar, which burned in the Gulf of Aden in 1932, the Atlantique, a 40,000-ton liner, which burned in the English Channel in 1933, the great liner Paris, which burned and caprized at her pier at Le Havre in 1939, and the 40,000-ton Lafayette (ironically bearing the same name which the Navy had adopted for the Normandie), which caught fire and became a total less at Le Havre in 1938, the fire reportedly having started from sparks of a workman's blowtorch.

There were other warnings, too, apart from those of experience and history; warnings in the way of rumors to the effect that the vessel would never leave port and similar rumors to that effect which might possibly indicate that suspicions were being directed to the possibilities of sabotage. Such warnings called for increased vigil and extraordinary care and supervision, but the evidence indicates that there was no increased vigil and that the care and supervision required in

the circumstances were totally lacking.

It is not difficult to find acts of carelessness or omission on the part of many individuals connected with the Normandie, but it is difficult

to place the sole responsibility upon any one individual.

First, there was carelessness in the manner in which the burning of the stanchions was permitted to be done. Prudence would have required, in this regard, that adequate hose be laid out, connected up, manned, and ready for instantaneous use at all times during the burning of the stanchions. Not only was no hose ready for immediate use, but at the very moment the fire started even the casual safeguards were absent. There was no fire watch; the asbestos shield had been dropped; the metal shield had either fallen over or been removed. There were no fire extinguishers, nor was there water in buckets in sufficient quantity. Ordinary care, too, would have required that the highly inflammable bales be moved to a safe distance from the scene of operations.

The contractor's fire watchers, on the vessel, while subject to the approval of the naval inspector, were unskilled and untrained in fire furting. Moreover, the presence of the Coast Guard detail on the Normandie, stationed there for her protection, unquestionably created a false sense of security. Actually there were too few Coast Guard men essigned to the fire brigade; there had been many shifts in personnel, and the members of the fire brigade were for the most part

Taw recruits, inexperienced in fire fighting.

In short, there was lack of adequate supervision of the contractor, and lack of adequate fire-prevention safeguards and lack of sufficient

trained personnel on the Normandie.

Second, there was an absence of proper coordination between the activities of the various units on board. The Coast Guard unit was not kept advised of and had no control over the activities of the contractor and subcontractors, or the work allocated to them by the naval inspector. This accounts in part for the undue delay of 10 to 20 minutes in ringing the first city fire alarm. The city fire-alarm box on the bridge had been removed on January 13 without consultation with the Coast Guard. Lack of coordination explains, too, the waste of valuable minutes, every second of which permitted the flames to grow in intensity, before the Coast Guard fire brigade was organized and at the scene. Because of the conversion work, and against the better judgment of its officers, this unit had been moved to temporary quarters, away from the main fire locker, away from direct telephone communication with the central fire-control station, to another deck. By the time the brigade arrived at the salon, the smoke and flames were too intense for it to be effective. Its efforts were hampered, also, because some of the hoses brought to the scene could not be connected to the standpipes; the brigade had been uninformed as to the progress of the change-over from French to American type fittings.

Third, there was divided authority and lack of a unified command on the Normandie. With divided authority there was, consequently divided responsibility, resulting in confusion, lack of coordination, and consequent carelessness. Had one individual been placed in command of the vessel, with authoritative and supervisory control over the several units aboard, it is far less likely that the fire would have

occurred, or ended so disastrously.

On February 7, 1941, the Secretary of the Navy had confirmed the Maritime Commission that the Navy Department had assumed full responsibility for the Normandie. Yet the committee was much confused by the apparent inability of anybody connected with the ship in an official capacity to define the respective jurisdictions and responsibilities of the various officers and bureaus of the Navy Department. The line of demarcation of the responsibility of the commandant's office, the district material office, the Bureau of Ships, and the Office of Chief of Naval Operations was much confused; nor was it any clearer as to the authority of the Navy Department and its bureaus and the contractor and subcontractors. The question was asked time and again, "Who was in charge of this ship?" Certain delegated authority of each officer was referred to in reply, but apparently there was no one authority who seemed to think that he was, or knew who was, in entire charge of the ship. There was no over-all command.

There was much talk of the responsibility of the contractor under his contract. That is a contractual responsibility within the proper jurisdiction of the courts; but there was a higher responsibility to the Nation at large for the protection and maintenance of an important naval auxiliary, which has been put out of action as effectively by carelessness and confusion as if by acts of saboteurs or enemy agents.

The protection of Government property should always remain in the hands of Government representatives, and no Government representative should feel that he is absolved from the duty of full and entire protection of Government property because of terms in a contract that make the contractor liable for such protection. Fourth, there was undue baste, indecision and lack of careful planning in connection with the conversion of the Normandie. The ship was taken over by the Navy on December 24, 1941. A casual and inefficient survey of the ship and its utilization had been made by the Bureau of Ships shortly before this. There was a burried and hasty examination of the vessel, but most of the information concerning it was obtained from a book in possession of the Bureau of Ships

giving certain descriptive information.

It was first thought that the Normandie might be used as an airplane carrier. Then, this idea was discarded as well as one of making a boxed plane cargo ship out of it. Later, it was thought that she should be converted for use as a unit loaded transport operated by Navy and Coast Guard personnel. It was then decided to turn her over to the Army and orders were issued to that effect, but within 2 weeks that was given up and it was finally decided that the Navy should retain control of the vessel, manage her and use her for a unit loaded transport vessel. These various decisions resulted in delay in the conversion of the ship, for changes had to be made from one plan

to another in the conversion for different purposes.

In this case, as in all work to be done in the conversion of ships for war use, speed is, of course, highly desirable and it is necessary to take some chances. The decision is not always an easy one, but in the matter of the Normandie, under all the conditions existing and circumstances surrounding its speedy preparation for an early sailing, the conclusion is inescapable that it was bad judgment to issue orders for the sailing of this ship on February 14. The possibilities of loss after it sailed were sufficiently great to overcome any advantages that might have been gained by a hasty preparation and speedy departure from the harbor. The evidence is conclusive that the ship was not in proper condition to be ready to sail on February 14, and, regardless of necessity for speed, too long a chance was being taken in ordering the ship out before conditions were adequate to protect those on board and the ship, itself, from loss. The evidence is also conclusive that competent naval officers as late as February 5 recommended against the sailing of the ship on February 14 and that the recommendations were overruled.

There is some confusion in the testimony and no direct evidence as to who was responsible for the order to sail on February 14, but the order came from the Navy Department in Washington, and it can be presumed that it was done on the highest controlling authority.

If a thorough and detailed survey had been made of this ship, it is probable that no order would ever have been issued directing such hasty preparation and speedy sailing. Such issuance of unreasonable orders, based on incomplete knowledge of actual conditions, should serve as an example to responsible officials of the dangers inherent in arbitrary decisions contrary to the recommendations or protests of the officials in the field.

### IV. RECOMMENDATIONS

The scope of the committee's investigation went beyond the actual burning and capsizing of the *Normandie* and included a general survey and study of the manner and authority under which protection, during wartime, is afforded water-front facilities and ships in port. On the day of the Normandie fire, February 9, 1942, there were at least 16 agencies of Federal, State, and local government, exercising various, and in some cases, overlapping jurisdictions and responsibilities as to

protection and regulation of these matters.

By Executive order dated February 26, 1942, the President vested full responsibility for the protection of the water front, water-front activities, and ships in our harbors in the Navy Department. Secretary of the Navy has designated the Commandant of the Coast Guard as the responsible individual under the Executive order. Many of the unsatisfactory conditions which existed at the time of the Normandie fire have been corrected and steps are being taken for further correction. A system of identification passes has been adopted by the Coast Guard and no individual may have access to restricted water-front areas or ships without such passes. Other steps also have been taken, for the lesson has been brought home in a very pointed manner by the burning of the Normandie.

The committee believes, however, that the properly constituted authorities should, with ever-increasing vigil, take all steps possible toward the further protection of ports, water-front facilities, and ships in ports from the dangers of fire and sabotage. In the practical administration of these matters the committee is of the opinion that the functions, jurisdictions, and responsibilities of various governmental units and agencies are still somewhat confused and that there is a pressing need for further and clear-cut definition of duties and responsibilities. The dangers inherent in overlapping jurisdiction, and the possibilities of any jurisdictional "no man's land" should be studied and immediately acted upon.

In connection with these matters, the committee recommends the adoption of and adherence to the following recommendations which may be promulgated by joint and several action of the Secretary of the Navy and the Attorney General. To the extent that such recommendations may require implementing legislation, the Congress should be requested to act thereon without delay.

The recommendations are:

#### 1. Administrator.

An administrator in each naval district should be charged with the duty of protecting and guarding all waterfront facilities, terminals, piers, and such properties engaged in war-supplies and cargo movements. Such protection should be of a physical nature.

2. District security officer.

The district security officer should be responsible to the administrator for the enforcement of all fire-preventive measures adopted by the administrator for the safety of all vessels in the district, whether the vessel be in commission, idle status, or under repair. It should be his duty to develop the highest degree cooperation between the local fire department and the vessel's security officer.

3. Vessel's security officer.

Each vessel's security officer should maintain the highest possible degree of protection against fire and damage. No operation of any kind that creates a hazard should be permitted without the approval of the security officer, and such approval should not be granted until the hazard is reduced to a minimum, and security equipment is in order and ready for immediate use. The first protective measure should be the survey, repair, and replacement of all fire-fighting equipment.

4. Senior officer of vessel under conversion or repair.

Upon the final determination of repairs or conversions by the Barcau of Ships, district material officer, and contractors, there should be assigned to the vessel under such work, a senior officer whose duty it shall be to coordinate the activities of the various naval respresentatives as to vessel administration, and he should report directly to the commandant of the district.

5. Fire watchers.

Shippard fire watchers should be trained by arrangement with the local fire department, and certified by the Bureau of Marine Inspection and Navigation, and no fire watchers should be employed on any vessel without such certificate.

6. Fire inspector.

It should be the duty of the administrator to arrange with the local fire department to designate a traveling inspector of the fire department to visit vessels engaged in hazardous operations to ascertain that the equipment used by the local fire department is ample and that access to such operations will not be impeded and that vessels are not isolated.

7. Examination of vessels and ship personnel.

Vessels entering restricted areas should be thoroughly searched and the personnel of such vessels should be thoroughly examined. The administrator should designate the Search and Seizure Division of the United States Customs for such duties.

8. Sabotage, espionage, and subversive elements.

The Federal Bureau of Investigation in each district should be designated to have full and exclusive control of all matters dealing with espionage, sabotage, un-American activities, and subversive elements in the maritime industry. No other agency should engage in such work without the approval of this Bureau. This is consistent with the Executive order of February 26, 1942. There should be no exceptions to this.

9. Waterfront survey.

The Federal Bureau of Investigation should immediately make a protective survey of all waterfront facilities with a view of securing the highest possible degree of protection against the saboteur and the espionage agent. Copies of the survey report, together with Federal Bureau of Investigation recommendations should be furnished to the administrator for immediate action. Such survey should cover the respective harbors of the country and should be conducted also to determine the needs of the various areas and a general plan should be provided.

10. Restricted areas.

The entire waterfront should be designated as a restricted area. Such sections of the waterfront that load and discharge war supplies should be declared a prohibited zone and such designated areas should be determined on the survey report of the Federal Bureau of Investigation, together with recommendations of the local police and fire departments, and all entrances and exits to such areas should be patrolled by armed guards and a guard should be assigned to all vessels upon arrival and should remain thereon until departure from such areas.

11. Identification card.

No one employed in a restricted area should have access thereto who is not in possession of an identification card issued by the Coast Guard, and visitors to such areas should sign the visitors register. All packages and bundles should be thoroughly inspected and checked.

12. Identification card-Prohibited zone.

No one should be granted access to any prohibited zone unless they have a Coast Guard identification card, and such identification card shall bear an approval stamp of the Federal Bureau of Investigation. No such approval should be granted by the Bureau until the files of that organization have been checked and found to contain no evidence of subversive activity on the part of the individual requesting such approval. All persons employed in restricted areas should be required to submit full details as to their personal history and such information shall be verified and such persons should be fingerprinted and wear necessary identification badges. A complete and full record of all people working in restricted and prohibited areas should be maintained by the administrator.

13. Coordination of protective unit and sabotage unit.

There should be a full and complete exchange of all information and reports between the administrator and the Federal Bureau of Investigation concerning all phases of water-front facilities.

14. Correlation of activities.

The administrator and the Federal Bureau of Investigation in the district should have full and exclusive authority to correlate the activities of Federal, State, and local organizations in complying with the regulations or orders issued by the Attorney General and the Secretary of the Navy.

Dissemination of information.

It should be the duty of the administrator to control the dissemination of all information concerning activities carried on in restricted areas and prohibited zones, and such information shall only be released to the public on the approval of the commandant of the district.

16. The merchant marine.

The operation of merchant vessels of the United States should be placed under the jurisdiction of the Secretary of the Navy and such vessels together with their personnel should operate as an auxiliary to the Navy. Consideration should be given to the stabilizing for the duration of the war of current wage scales and all holders of marine licenses and marine certificates should register with the commandant of the district in which they now reside.

17. Arresting powers and subpena.

The Federal Bureau of Investigation and the Naval Intelligence should be granted the power of arrest and subpens of any person engaged in or suspected of acts of sabotage, espionage, and other related unlawful or subversive activities.

18. Naval intelligence.

The Office of Naval Intelligence should be directly responsible for all intelligence work relating to vessel movements and personnel and there should be a clear line of demarcation between vessel and shore activity, activities of the Naval and Military Intelligence and the Federal Bureau of Investigation.

19. Coordinator for district operations.

There should be a traveling coordinator between the various districts whose duty it shall be to see that the district operations are in line with the orders issued by the Attorney General and the Secretary of the Navy, and he shall report his findings directly to the Attorney General and the Secretary of the Navy.

20. Survey of ships.

For the greater security of the port, there should be a full complete investigation and survey of every ship that is taken over by the United States Government prior to taking it over. Such survey of each vessel is necessary in order that a decision might be reached as to the purposes for which the ship could be utilized. If such a survey was made prior to its acquisition by the Government, it might be found that in some cases the ship could not be used, and thereby money would be saved by the Government. The Bureau of Ships of the United States Navy should be fully advised of everything connected with the taking over and conversion of said ships in connection with every vessel which the Government seizes.

21. Contracts.

It was found that the Bureau of Ships uses a general form of contract for the conversion of ships that have been taken over. There should be a specific contract in each case with each contractor, and specific terms applying to said case should be put in each contract.

A general form was used in the contract with the Robins Dry Dock Co., and its provisions were too generally applicable to be of the greatest value in the conversion work on such a valuable vessel as

the Lafayette.

22. Command of vessels.

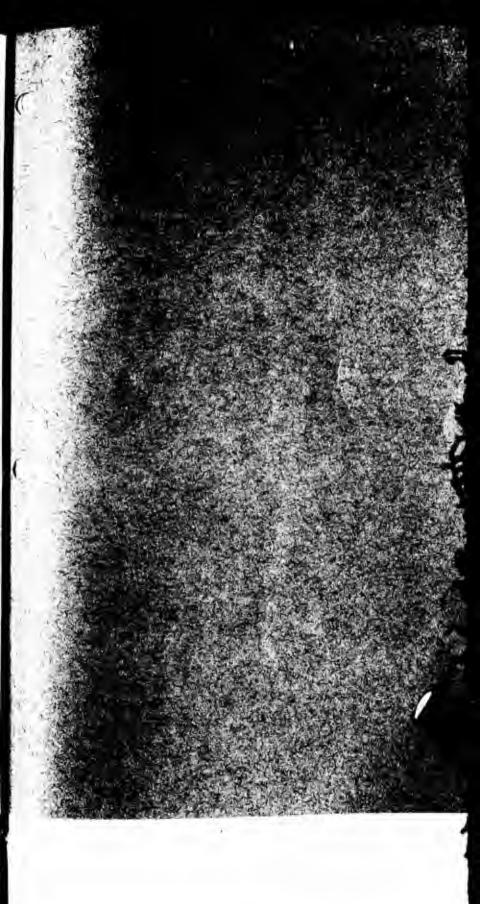
If the Navy Department is to control the ship and supervise the contract, there should be one officer having the entire command and control of the ship, and everything on it. His direction would not interfere in any way with the respective duties and responsibilities of other forces on the ship, such as contractor's workmen, but he would be there to take charge in the event of any trouble that might arise.

28. Cooperation of unit heads on repairs and conversions.

It is strongly recommended that at least one representative from each division on a ship that is in process of conversion, such as in this case the commandant's office, the Coast Guard office, the district material officer, captain of the port, and other representatives as desired and thought necessary, should meet frequently with reference to the care of the ship. Their weekly discussions would be very valuable in having exercised the degree of care which is necessary for the preservation of Government property.

P. H. DREWRY, Chairman, Ed. V. Izac. Lansdale G. Sasscer, James J. Heffernan. Melvin J. Maas. James W. Mott. George J. Bates.

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### TREASURY DEPARTMENT

PROCUREMENT DIVISION
WASHINGTON
April 25, 1942

### MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended April 25, 1942.

The Office of Lend-Lease Administration has allocated \$1,000,000 to the Procurement Division for the
purpose of leasing a pool of private warehouses throughout the country for use by any of the Government agencies in storing Lend-Lease supplies.

According to the arrangement, the Office of Defense Transportation will select the warehouses and we will execute the leases, and the using agencies will reimburse us to the extent goods are stored in such warehouses. It has been determined by the Lend-Lease Administration and the Office of Defense Transportation that such an arrangement is necessary to provide immediate storage facilities for Lend-Lease supplies.

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# TREASURY DEPARTMENT, PROCUREMENT DIVISION STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS AS OF APRIL 25, 1942 (In Millions of Dollars)

Allocations Purchase Authoriza-	Total \$1402.3 (1401.3)	U. K. \$ 682.0 ( 663.0)	RUSSIA \$ 247.0 ( 246.8)	CHINA \$ 55.2 ( 55.2)	ADMINISTRATIVE EXPENSES \$ 1.6 ( 1.6)	UNDISTRIBUTED & MISCELIANEOUS \$ 416.5 ( 434.7)
tion (Requisitions) Requisitions cleared	\$ 922.1 ( 888.9)	\$ 619.5 ( 597.3)	\$ 252.4 ( 241.4)	\$ 45.9 ( 46.0)	- 1	\$ 4.3 ( 4.2)
for Purchase	\$ 858.4	\$ 590.4	\$ 220.7	\$ 43.5	1	\$ 3.8
Obligations (Pur-	( 828.3)	( 569.2)	( 211.3)	( 43.6)		( 4.2)
eDeliveries to For-	\$ 825.9	\$ 571.5	\$ 209.8	\$ 40.8	\$ .9	\$ 2.9
	( 799.1)	( 550.8)	( 204.7)	( 40.2)	( .8)	( 2.6)
eign Governments	\$ 320.2	\$ 263.2	\$ 38.1	\$ 17.8		\$ 1.1
at U. S. Ports	( 307.8)	( 255.8)	( 34.4)	( 16.7)		(9)

<sup>\*</sup> Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of April 18, 1942.

### EXPLANATION

The Allocations, Obligations, Deliveries to Foreign Governments increased in total and for the individual countries.

Purchase Authorizations and Requisitions
Cleared for Purchase increased in total and for
all countries excepting China, which showed a
slight decline as the result of a decrease in the
money value of requisitions in purchase.

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Director of Procurement

### LEND-LEASE

TREASURY DEPARTMENT, PROCUREMENT DIVISION STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS AS OF APRIL 25, 1942 (In Millions of Dollars)

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tion (Requisitions)	\$ 922.1 \$ 619.5 ( 888.9) ( 597.8	\$ 252.4	\$ 45.9 ( 46.0)		\$ 4.3 ( 4.2)
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Purchase Authorisations and Requisitions
Cleared for Purchase increased in total and for
all countries excepting China, which showed a
slight decline as the result of a decrease in the
money value of requisitions in purchase.

# WAR SHIPPING ADMINISTRATION WASHINGTON

April 25, 1942

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

Dear Henry:

I have yours of the 23rd enclosing memorandum from Mr. Gaston on the situation in the port of New York.

I am using this memorandum as a basis for discussion aimed at improving the condition. It must be improved.

Everyours,

L. W. Douglas.



### TREASURY DEPARTMENT

### INTER OFFICE COMMUNICATION

DATE April 25, 1942

то

Secretary Morgenthau

FROM

Mr. Kamarck

Subject: Shipment of Planes and Tanks to U.S.S.R.

-

### Summary

- 1. In the period April 1 10, 66 planes and 152 tanks (114 medium, 38 light) were shipped to the Red Army.
- 2. At the rate of shipments now achieved, the Russians are being sent, roughly, one-quarter of our light tank production and about one-half of our medium tank production.

### Table A

Shipments of Planes and Fighting Vehicles from the United States to the U.S.S.R. \*

		Shipments during April 1-10, 1942		Cumulative Total Jan.1, 1942 to April 10, 1942	
Planes		50		706	
Pursuit Bombers		59 		306 296	
	Total		66		602
Tanks					
Light Medium		38 114		389 432	
¥.,	Total		152		821
Other Fight	ing Vehicles				
Jeeps Gun Carr	iers		0		1,549 78

<sup>\*</sup> These figures are based on export declarations received during the period indicated.

Table B

Shipments of Planes and Tanks to U.S.S.R. by months

Total 1942 to April 10	306	596	905	68₹	1135	\$21
4pril 1 - 10	65	I	99	35	गार	725
Maroh	89	οΔτ	238	6 <b>9</b> T	558	LTH
February	753	Stt	238	172	38	STO
January, 1942	99	<b>1</b> .	09	SO	SS	2tı
	Tineauf	Bombers	Total Planes	Light	Medium	TstoT samet

• Treasury Department 395
Division of Monetary Research

Date.....19

To:

From:

For Secretary's files. No comment.

COP.

### DEPARTMENT OF STATE WASHINGTON

April 25, 1942

In reply refer to FD 893.516/772

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch No. 334, dated March 24, 1942, from the American Embassy, Chungking, China, concerning a British proposal to establish a branch of the Hongkong and Shanghai Banking Corporation at Chungking.

#### Enclosuret

From Embassy, Chungking, Despatch No. 334, dated March 24, 1942 No. 334.

Chungking, March 24, 1942

Subject: Foreign banks in China; British proposal to establish a branch of the Hongkong and Shanghai Banking Corporation at Chungking; restrictive Chinese regulations.

Air mail

The Honorable

The Secretary of State,

Washington, D. C.

Siri

I have the honor to enclose copy of a memorandum of conversation with Mr. Hall-Patch, financial attache of the British Embassy, in reference to a proposal to establish a branch of the Hongkong and Shanghai Banking Corporation at Chungking and restrictive Chinese regulations which, according to Mr. Hall-Patch, would affect the extraterritorial status of the bank.

I asked Mr. Hall-Patch for a copy of the Chinese banking regulations to which he referred. The copy has not yet been received. If it reaches me, I shall send it to the Department. I do not feel that the matter is one in which I should show any interest by requesting a copy from the Ministry of Finance at this time. If the copy cannot be obtained from the British Embassy, however, I will endeavor to obtain it unofficially through other channels.

Respectfully yours,

C. E. Gauss

Enclosures

 Copy of memorandum of conversationwith Mr. Hall-Patch, dated March 22, 1942.

Original and two copies by air mail to the Department Three copies by pouch to the Department

851.6 CEG/mc1

True copy of signed original. MCL Enclosure no. 1 to despatch no. 334 dated March 24, 1942 from American Embassy at Chungking.

(COPY)

Memorandum of Conversation.

March 22, 1942.

Subject: Foreign Banks in China; British proposal to establish Hongkong & Shanghai Banking Corporation office at Chungking; restrictive Chinese regulations.

Present: Mr. Hall-Patch, financial attache of the British Embassy Mr. Gauss

Mr. Hall-Patch, during a conversation with me on March 18th, mentioned that he and the "pundits" of his Embassy had been giving consideration to the possible establishment of a branch of the Hongkong & Shanghai Banking Corporation at Chungking. The bank was not enthusiastic over the idea; it would be an expensive undertaking with little return; but the British Embassy feels that it would be well to have a foreign bank established here, functioning in China when peace is restored; maintaining the foreign banking position. Therefore, the Bank has sent a man to Chungking to look into the matter. (I understand that Mr. Murray of the Penang branch of the Bank is here for that purpose \$\( \textit{C.D.} \).

Hall-Patch went on to say that in following up this idea the British Embassy had written to the Chinese Government and that the Government had replied that it would of course welcome a foreign bank at Chungking but that it must conform to the Chinese banking regulations. The British Embassy had then inquired regarding these war-time banking regulations and upon examining them considered that their application to a foreign bank would be in derogation of extraterritorial rights. Hall-Patch wanted to know what I thought of the proposal to have a foreign bank here—to hold the position for after the war—and whether I thought such a bank should submit to the Chinese regulations, which in effect represented a unilateral abolition of their extraterritorial status.

I stated that so far as concerns the American banks, I had made no recommendation that they open at Chungking; that I had no intention of making any such recommendation; and that I had no information that the National City or Chase banks were considering any such project. I continued that I could not recommend to my Government that any American bank establishing here should submit to Chinese Government banking regulations which unilaterally removed such an American bank from its extraterritorial position. I did not know of the war-time banking regulations to which Hall-Patch referred and could not comment on them. I felt that under war conditions a foreign bank might find it advisable and in good form to conform to any special war-time regulations, by way of cooperation, with a view to working in harmony with the Chinese Government banks and the Chinese Government; but I could not recommend that any bank submit to regulations which

would in effect deprive them of their extraterritorial status. I commented that we are all, of course, under commitment to move for the abolition of extraterritorial jurisdiction after the war; but in my opinion the abolition should be effected by orderly processes and not by any unilateral action on the part of China. Respect for established foreign interests demanded that there be no unilateral action; and I was not disposed to recommend a gradual breakdown by submitting to regulations such as he described (but which I had not seen, and which I took it from his statement were, as he stated, a repudiation of extraterritorial rights).

As to the necessity of a foreign bank at Chungking at this time, I gave it as my personal opinion that the situation is not such as to demand that such a bank be established. I pointed out that even in Japan, after the abolition of extraterritoriality, foreign banks have functioned; and I believed that the situation in China after the war would be such that the reestablishment of foreign banks would not be opposed; it might be very much welcomed. Rather than have to face the question of the Chinese banking regulations mentioned by Hall-Patch, I would be disposed to recommend to an American bank that they wait until after the war.

Hall-Patch then said that the question is being dealt with by his Embassy from two angles. The first was the proposal to open a branch of the Hongkong & Shanghai Bank here. On that approach they had reached the impasse he had first described. A second angle has reference to the present Hongkong & Shanghai Bank branch at Foochow. Anticipating re-occupation of Foochow by the Japanese, consideration was being given to removing the Foochow branch to Chungking. The Chinese when approached had indicated that this was acceptable to them, and they had not mentioned the Chinese banking regulations. Hall-Patch thought that it might be possible to move the Foochow branch to Chungking without raising the question of the Chinese regulations. I made no comment on the point.

Hall-Patch also referred in his conversation to the operations of the French bank at Kunming; they are in a position, he said, to have relations with the enemy; the British Embassy has approached the Chinese Government in the matter and has received a reply saying that the Chinese Government may control the French bank under the Chinese regulations; but as a matter of fact such control is not being exercised. Hall-Patch commented that it would be a ridiculous situation to have a British bank at Chungking operating under the Chinese regulations and supervision while the French bank at Kunming was not operating thereunder. I offered no comment on the subject.

(Initialed) CEG

C.B.G.

CEG/mc1

Aprel 25, 1940

Str. Mysesy

R. D. V. 241

Vill you places send the following cable to the section legation, dules, 1974.

"From Erentary. Reference So. 16h, March 4, 7 pm.

For your information the British Spreament has agreed to the pagetiation of deliar telegraphic transfers, cheets drawn on the Breasurer
of the Baitol States and the cale of Baitol States corresp for official
perpesses at the rate of \$4.0j-1/2 per yound not in Great British and

Treasury

Forthern Iraland and the males that the British Severament has colded
the Designan Sentral Basis and the Settemal Back of Repri respecting
similar expangements on the basis of \$4.0j-1/2 per yound not in the
storling eres."

### TELEGRAM SENT

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

April 25, 1942.

AMLEGATION.

CAIRO (EGYPT)

361

From Treasury.

QUOTE. Reference No. 184, Merch 4, 7 p.m.

For your information the British Government has agreed to the negotiation of dollar telegraphic transfers, checks drawn on the Treasurer of the United States and the sale of United States currency for official purposes at the rate of \$4.03-1/2 per pound not in Great Britain and Northern Ireland and the Treasury understands that the British Government has cabled the Dominion Central Banks and the National Bank of Egypt respecting similar arrangements on the basis of \$4.03-1/2 per pound not in the sterling area. UNQUOTE.

HULL (FL)

FD: FL: BlicB

MEV

GRAY

London

Dated April 25, 1942

Reo'd 9:44 a.m.

Secretary of State,

Washington.

2153, April 25, 2 p.m.

Department's 1468 April 8, midnight.

Bank of England anxious to know time required to effect dollar credits in bank of deposit after receipt of telegraphic information to Treasury on local currency.

MATTHEWS

RLO

### TREASURY DEPARTMENT

MITER-OFFICE COMMUNICATION

DATE April 25, 1942

To Secretary Morgenthau

FROM Mr. White

# CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £13,000
Purchased from commercial concerns £6,000

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

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

Canadian dollar 12-5/16% discount Argentine peso (free) .2365
Brazilian milreis (free) .0516
Colombian peso .5775
Mexican peso .2064
Uruguayan peso (free) .5295
Venezuelan bolivar .2860
Cuban peso .2460

We sold \$2,977,000 in gold to the Central Bank of Venezuela, which was earmarked for its account.

No new gold engagements were reported.

Copy No. 13

### BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 135

Information received up to 7 A.M., 25th April, 1942.

### 1. MILITARY

Front near TAUNGGYI and are hard pressed on the SITTANG Front, There is nothing to report from the INRAVADDY Front.

RUSSIA. The Russians are maintaining their pressure on the German 16th Army and are continuing to make local attacks in the Central Sector West and Southwest of MOSCOW.

### 2, AIR OPERATIONS

WESTERN FRONT. 23rd/24th, 91 tons of high explosive and over 30,000 incendiaries (about 110 tons) were dropped on ROSTOCK and 28 tons of high explosive on the Heinkel Works. Many large fires were started in the town and several hits are claimed on the factory, 14 R.C.A.F. and seven New Zealand aircraft took part without loss. 24th. 12 Hostons escorted by 26 Squadrons of Spitfires attacked the Harbour area at FINSHING. A further 14 Squadrons of Spitfires carried out sweeps over Northern FRANCE. During these operations 5 enemy aircraft were destroyed, one probably destroyed and 4 damaged. We lost 10 Spitfires. A Hudson bombed a 2,000 ton Merchant Vessel off the Nerwegian Coast. It is believed that the ship was seriously damaged or sunk. 24th/25th, 179 aircraft were sent out - ROSTOCK 91, Heinkel Assembly Works, ROSTOCK, 34, DUNKIRK 47. Two are missing and one orashed. Preliminary reports indicate that most sircraft attacked ROSTOCK in perfect conditions with excellent results. Large fires seen, At Reinkel Works attack considered very successful. Most aircraft attacked objective. Large fires seen in the factory. One 4,000 lb, bemb seen to go through the roof of the Assembly Shop. 30 R.C.A.F. and 7 R.A.A.F. aircraft took part in the night's operations. One Canadian aircraft among the missing. 25 enemy aircraft flow over southwest ENGIAND.

MALTA. No air attacks have been reported,

SIGHT, 23rd/24th, 9 sorties of Wellingtons, two of which are missing, attacked COHISO aerodroms.

### 3. HOME SECURITY

24th/25th, EXETER. Damage to house property. 20 persons so far reported killed. Regraded Unclassified



# UNITED STATES GOVERNMENT COORDINATOR OF INFORMATION

WASHINGTON, D. C.

April 25, 1942

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

Dear Henry:

The attached is the British Home Intelligence Report for the week ending April 22.

Sincerely,

William S. Donovan

Attachment



- 1. Public feeling in its present state is less susceptible than ever to assessment. Sense of detachment from war reported by four regions, while "more lively interest in both home news and news from abroad" found in three regions. Expectancy continues. Spirits rising slightly because of:
- (a) Tokyo bombing, which was termed "best news we have had for months"; (b) budget, which was generally accepted as "fair and sound, attuned to general demand for austerity"; (c) the "non-offensive" of the RAF over the continent. A "real kick" to everybody; (d) good weather.
- 2. Ranged against this slight improvement are the continued anxiety over Burma and the uncertainty and disgust occasioned by "aval's return to dominance. But these are outbalanced by former factors.
- 3. Tokyo raids brought forth a "wave of exultation" and the hope that "Americans will give them more of this". "Tide is turning in this area and American activity is increasing."
- 4. Little comment on Russia. One report comes from Scotland; "Growing minority turning away from Russia, as it is felt by 'anti-second-fronters' that Maisky, Litvinov, and others have not been helpful to Allies in stimulating impossible demand for second front."
- 5. Regarding war in West. "Great scale" of recent bombings of Italy and Germany has caused satisfaction. Admiration evoked by Augsburg raid, but opinion divided on question of whether "such losses are or are not worth while."
  - 6. Regarding Government: little criticism or mention.
- 7. War strain being felt by middle-aged people, what with such new burdens as longer working hours, home guard duties, care of evacuees, etc.



### UNITED STATES GOVERNMENT COORDINATOR OF INFORMATION

WASHINGTON, D. C.

April 25, 1942

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

Dear Henry:

The attached is the British Ministry of Warfare Weekly Propaganda Digest.

Sincerely,

William J. Donovan



### Germany:

For hoarding, destroying, or witholding raw materials vital to needs of population a new decree provides heavy terms of imprisonment at hard labor.

### Italy:

Because of a) balking by industrialists; b) dependence on imports from countries which fix prices without regard to internal Italian legislation, efforts at price control are failing. From July to December 1941 average price of a shirt rose from 50 to 100 lira, of a pair of socks from 8 to 18 lira.

### France:

Food supplies so short in large towns during March
that mass street demonstrations occurred in Montpelier, Sete,
and Lyons. Crowds shouted for meat, milk, and bread. Thousands of women sent deputations to mayors and signed petitions.
Shops were looted in some cases.

### Belgium:

Todt organization constructing concrete walls. Along entire Atlantic coast there is great activity in the building of fortifications. More than one half total French cement production, now running at about 2,500,000 tons, earmarked for this purpose by Germans.

4/26/42 WASHINGTON

# THE WHITE HOUSE WASHINGTON

April 25, 1942.

### MEMORANDUM FOR

H. M., JR.

Your draft is excellent BUT

- (a) I haven't got room for it.
- (b) It would make this a
  Tax Message instead of an
  over-all cost of living
  Message.

F. D. R.

### POURTE DRAFT

### TO THE COMORGES OF THE UNITED STATES:

In certain ways the present world encircling war presents problems which were unimaginable during the First World War.

The Montres of combet today cover vestly greater areas.

Heny more millions of human beings are involved. The new factors

of mechanical power, in the air and on the land and on the sea

have produced radical changes in basic strategy and taction.

In this new war the nations resisting the Axis Powers
face an even greater challenge to their very existence. They
fight nere simister foces but their understanding of the
magnitude of the back and the very firmness of their determination make victory certain in the long days to come.

those of 1917-1918. Sow, as in the last war, the common energy has all the advantage at the outset; now, as then, it has and will cost bitter defeats and heavy losses to those who are defending our type of civilization, before they will be able to establish the vital superiority in men and munitions which will turn the tide.

The United States was far better prepared for actual war on December 7, 1941 than it was on April 6, 1917. For over two years by a succession of Congressional Acts we had carried out or initiated safety measures for our own defense in growing volume and importance. There were the revisions of the Neutrality laws, the adoption of the Selective Service law and the Lend-Lease Law, and the great increases of our Army and Navy and the instruments of war which they needed.

Finally, after Pearl Harbor, the American people adopted a national program of war production which would have been called fantastic by most people two years before. It has required the shifting of the major part of American industry from the products of peace to the weapons of war.

Inevitably -- but with the full approval of the nation -this enormous program is dislocating industry, labor, agriculture and finance. It is disrupting, and will continue to
disrupt, the normal manner of life of every American and every
American family. In this, we follow the pattern of the first
World War, although on a vastly greater scale.

During that earlier war there were certain economic factors which produced unnecessary hardships; and these hardships continued long after the signing of the Armistice. I use the word "unnecessary" because it is my belief that a very great deal of the suffering which was caused then can be avoided now.

understood phrase which affects the lives of all of us — the cost of living. Because rises in the cost of living which came with the last war were not checked in the beginning, people in this country in 1918 and 1919 paid nearly twice as much for the same things at the end of the war as they did at the start of it.

The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral.

of necessities, has gone up about 20% so far, since the luture of 1939, we must now act to keep it from rising another 60% or 80% during the next year or two — to hold it to somewhere near the present level.

There are obvious reasons for taking every step
necessary to prevent this rise. I emphasize the words "every
step" because no single step would be adequate by itself.
Action in one direction alone would be offset by inaction in
other directions. Only an all-embracing program will suffice.

Then the cost of living spirals upward week after

week and menth after month, people as a whole are bound to

become poorer, because the pay envelope lags behind rising

retail prices. The price paid for carrying on the war by

the Government and, therefore, by the people, will increase

by many billions if prices go up and if that happens we and

our children will be burdened with much higher debts in

years to come. Purthermore, there is an old and trye saying

that that which goes up must always come down — and you and

I know the hardships and heartaches we all went through in

the bed years after the last war, when Americans were losing

their homes and their farms and their savings and were looking in voin for jobs.

We do not intend after this war to present the same disastrons situation to those brave man who today are fighting our battles in all parts of the world. That is the least that our soldiers, sailors and sarines have a right to expect of us civilians in government, in industry, on the farm and in all other walks of life.

objectives the stabilization of the cost of living, for this
is essential to the fertification of our whole economic
structure.

out masses of details which relate more to questions of method than to the objective itself, I list for the Congress the following points, which, taken together, may well be called our present national economic policy.

1. To keep the cost of living from spiraling upward, we must tax heavily and keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.

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- To keep the cost of living from spiraling upward,
   we must fix ceilings on the prices which consumers and
   wholesalers and manufacturers pay for the things they
   buy.
- 3. To keep the cost of living from spiraling upward,
  we must stabilise the remuneration received by individuals
  for their work.
- 4. To keep the cost of living from spiraling upward,
  we must stabilize the prices received by growers for the
  products of their lands.
- 5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing Government war Bonds with their earnings instead of using those earnings to buy articles which are not essential.
- 6. To keep the cost of living from spiraling upward,
  we must ration all commodities of which there is a
  scarcity, so that they may be distributed fairly among
  consumers and not merely in accordance with financial
  ability to pay high prices for them.

7. To keep the cost of living from spiraling upward we must discourage credit and instalment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available for the purchase of War Bonds.

I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the great objective of keeping the cost of living down.

It is my best judgment that only one of these points requires legislation at the present time, for the very good
reason that the Congress has already passed laws with respect
to the others which seem adequate to meet the national policy
enunciated. I assure the Congress that if the required
objectives are not attained, and if the cost of living does
continue to rise substantially, I shall so advise the Congress,
and shall ask for any additional legislation which may be
necessary.

In the case item where legislation is now necessary,
the subject is under consideration in the Romes of Representatives. I refer to the first item — the purpose of which
is to heep excess profits down and, at the same time, raise
further large sums for the financing of the war.

on this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sun of about one hundred million dellars every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sun equal to more than half of the entire national income will be spent in the war effort. Almost the whole of these billions is being and will be spent within the United States itself.

Profits must be taxed to the wincet limit consistent with continued production. This means all business profits — not only in making mustices, but in unking or solling anything class. Under the proposed new tex law we seek to take by termine all under or excess profits. It is incumbent upon the Congress to define under or excess profits, and envising in excess of that specific figure should go extentionally to the Congress.

POURTE DEATE

olever people will not find leopholos, or in which some businesses will not be equitably included. I have suggested to the Common of the Committee on Mays and Means in the House of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of business which exceed the expressed definition of the legal profit figure.

At the same time, while the number of individual Americans
affected is small, discrepancies between low personal incomes and
very high personal incomes should be lessoned; and I therefore
believe that in time of this grave national danger, when all
excess income should go to win the war, no American citizen
ought to have a not income, after he has paid his taxes, of more
than \$25,000 a year. It is indefensible that those who enjoy
large incomes from State and local securities should be immuse
from terration while we are at war. Interest on such securities
should be subject at least to surtame.

I cornectly hope that the Congress will pass a new tax
bill at the carliest moment possible. Such action is imporative
in the comprehensive all-out effort to keep the cost of living
down.

The second item, relating to price control is adequately covered by existing law, and is being put into effect as rapidly as possible. It is our effort to be fair in all phases of price control; and if our future experience reveals inequality or unfairness, corrections will, of course, be made.

The third item, seeking to stabilize renumeration for work, is also covered at the present time by existing laws and executive orders. If the cost of living remains relatively stable, no one is going to be hurt. Most workers in munition industries are working far more than forty hours a week, and should continue to be paid at time and a half for overtime. Otherwise, their weekly pay envelopes would be reduced.

Concerning the question of double time for Sunday: it
is contrary to sound policy to make people work more than six
consecutive days. But, if we are going to keep our plants
going seven days a week, that seventh day of rest will have
to be "staggered", and it will therefore fall on different
days for different workers. However, when very rare emergency

on his day of rest — whether it be funday or not — he should be paid double wages for that seventh day.

by labor and industry for the settlement of all disputes; and organized labor has given up its right to strike during the war.

All strikes are at a minimum. Existing contracts between employees and employees must, in all fairness, be carried out to the expiration date of those contracts. The existing machinery for labor disputes will, of course, continue to give due consideration to inequalities and the elimination of sub-standards of living.

I repeat that all of these processes, now in existence, will work equitably for the overshelming proportion of our workers if we can keep the cost of living down. This policy will guide all Covernment agencies.

In regard to item four, prices of farm products: for nearly nine years it has been the policy of the Government to seek an objective known as "parity" — or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity. I am confident, however, that with price ceilings imposed in accordance with law, the average of all farm products can be substantially kept at a parity level.

With respect to item five, the American people know that if we would raise the billions which we now need to pay for the war and at the same time prevent a disastrous rise in the cost of living, we shall have to double and more than double the scale of our savings. Every dime and dollar not vitally needed for absolute necessities should go into War Savings Bonds and Stamps to add to the striking power of our armed forces.

If these purchases are to have a material effect in restraining price increases they must be made out of current income. In almost every individual case they should be big enough to mean rigid self-denial, a substantial reduction for most of us in the scale of expenditure that is comfortable and easy for us. We cannot fight this war, we cannot exert our maximum effort, on a spend-as-usual basis. We cannot have Regraded Unclassified

all we want, if our soldiers and sailors are to have all they need.

I have been urged by many persons and groups to recommend the adoption of a compulsory plan of savings by deducting a certain percentage of everyone's income. I prefer, however, to keep the voluntary plan in effect as long as possible, and I hope for a magnificent response.

With respect to item six — rationing — it is obviously fair that where there is not enough of any commodity to seet all civilian demands, those who can afford to pay more for the commodity should not be privileged over others who cannot.

I am confident that as to many basic necessities of life rationing will not be necessary, because we shall strive to the utmost to have an adequate supply. But where any article becomes searce, rationing is the democratic, equitable solution.

Item seven -- paying off debts and curtailing instalment
buying -- should be made effective as soon as possible now that
money is becoming more plentiful. Those who comply with it
will be grateful that they have done so, when this war is over.
Flimination of private debts and an accumulation of savings
will provide a form of insurance against post-war depression.

Let to all of these items which do not require legislation, the executive departments and agencies whose functions and duties are involved, are at work as expeditiously as possible in carrying out this whole broad policy.

the result will be to require of every one of us some share of secrifice. Americans all will welcome this opportunity to share in the common effort of civilized mankind to preserve decempy and dignity in modern life.

the broad road which I am asking the American people to travel is in many ways a road of sacrifice, for we shall have to live our lives with less in the way of creature comforts than we have in time of peace. Some have called it an "economy of sacrifice", but we must interpret it in terms of the nobler concepts — the equality of sacrifice and the privilege of sacrifice. For this is fundamentally a people's war — and it must be followed by a people's peace. The achievement of victory in war and security in peace requires the participation of all the people in the fight for our common cause.

CHECK CANSESSES SECTION

April 26, 1942.

### MEMORANDUM

TO: Secretary Morgenthau FROM: Mr. Gaston

The fourth draft of the President's message to Congress, which we saw this morning, contains the following language: "\*\*\* and I therefore believe that in time of this great National danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxes while we are at war. Interest on such securities should be subject at least to surtaxes."

It was our belief that this language leaves you free to maintain before Congress your position that the exemptions granted in outstanding Federal securities are inviolate. In the case of any individuals who might have income in excess of \$25,000 a year exempt from additional Federal taxation, by virtue of the contract obligations written into the securities themselves, the excess over \$25,000 might be recaptured for the duration of the war by compulsory loans to the Federal Government in an amount equal to the excess. This would not, in my opinion, involve any breach of the Government's obligations. I gathered that Mr. Paul and the others of the group were in agreement on this point.

Mrs.

April 26, 1942.

### MEMORANDUM

TO: Secretary Morgenthau FROM: Mr. Gaston

The fourth draft of the President's message to Congress, which we saw this morning, contains the following language: "see and I therefore believe that in time of this great National danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxes while we are at war. Interest on such securities should be subject at least to surtaxes."

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It was not necessary to send this letter to the President, because the President followed HM, Jr's advice.



## THE SECRETARY OF THE TREASURY WASHINGTON

April 26, 1942.

My dear Mr. President:

I want to say to you in the most sober and emphatic manner possible that I cannot go along with any new plan of taxation which will involve directly or indirectly taxing outstanding Federal obligations that are either wholly or partially tax-exempt on any basis that will violate the present exemptions.

These exemptions were written into the laws under which the various securities were issued. They are expressed in definite terms on the face of the securities themselves. To attempt to abolish or to modify these exemptions would be an outright breach of contract.

In addition the honor of this Administration is involved. I have said repeatedly, in my own office and before committees of Congress, in public and in executive session, that I would never propose, support nor permit as long as I was Secretary of the Treasury any default on the exemptions contained in these outstanding Federal securities.

The case is very different with the State and There is no contract of this Governlocal securities. ment involved. If we were to make them subject to surtax taxation we should be doing no more than taxing them at the same rates and on the same basis as we tax all but a very small proportion of the Federal securities that were outstanding before we completely abolished the exemptions as to future issues last year. Except for an insignificant amount of old issues, all the outstanding Treasury bonds issued before the exemptions were totally removed are exempt from the normal tax, but not exempt from the surtax. The war tax increases are The exemption from the normal in the surtax brackets. tax is of no more value now than it was when the securities were issued. The great evil about the exemptions



on States and municipals, on the contrary, is that the higher the surtax rates go the more valuable become their exemptions. They are dodging war taxation completely. I can't see any reason why they should not be made subject to the same rule of taxation as all the Federal bonds we issued between the first World War and the passage of the Public Debt Act of 1941 on February 19, 1941. This rule would make them subject to surtaxes but not to normal taxes.

But any indirect plan which would have the effect of exposing the Federals to the normal tax would be a direct repudiation of a formal, written contract of this Government and I feel quite certain that it would have a demoralizing effect on the market for Federal securities, would create new uncertainties and would no doubt greatly increase the costs of financing. The fact that it would be violation of my solemn promises on behalf of the Administration is secondary, of course, but it is so weighty with me that I cannot now see how I could continue to carry the burden of the continued war financing if the promises were repudiated.

Sincerely,

Secretary of the Treasury.

The President,

The White House.

Copy No. 13

### BRITISH MOST SECRET

(U.S. SECRET)

### OPTEL No. 136

Information received up to 7 A.M., 26th April, 1942.

### 1. NAVAL

23/24. One of H.M. destroyers engaged three E-boats at close range off ETAPLES and hit one of them. One of H.M. submarines sank a 1,500 ton ship on the 9th and a 3,500 ton ship, with deck cargo, on the 13th. Both were in convoy on the Libyan coast. In the South Airiatic an H.M. submarine sank a laden 6,000 ton ship with torpedo on the 1st and a laden 1,200 ton ship by gunfire on the 7th. One of H.M. submarines is overdue and must be considered lost. A medium sized British merchant ship was sunk by explosion at SUEZ on the 23rd.

### 2. MILITARY

HURMA. 24th, IRRAWADDY Front. During the withdrawal from the FIN CHAUNG our Ferces were obliged to destroy their guns and transport and suffered heavy casualties. Chinese troops covering this withdrawal were partially successful in clearang YENANGYAUNG and withdraw on the night 21st/22nd. On the 24th, our forces were in the area about 30 miles northeast of YENANGYAUNG. No enemy contact reported.

SITTANG Front, Chinese heavily engaged 10 miles south of YAMETHIN,

KARENNI Front, Japanese using light tanks control the TAUNGGYI 
LOILEM road and have penetrated towards LAIHEA, Result of Chinese counter attack

on TAUNGGYI not yet known.

### 3. AIR OPERATIONS

HESTERN FRONT, 24th/25th, About 50 tens of H.E. and 66 tens of incendiaries were dropped on ROSTOCK and 34 tens of H.E. with 9 tens of incendiaries on the Heinker Works. Weather excellent, attacks most successful, Heinkel Works ablaze, 74 tens of H.E. were dropped upon Dunkirk docks.

25th. A total of 30 Bostons and 8 Hurricane bombers, with fighter record attacked the docks at CHERRURG, DUNKIRK and HAVRE, ABBEVILLE railway centrally a parachute factory at CALAIS. Two Bostons are missing. In support of these apparations, about 575 fighters were despatched of which 16 are missing. 9 enemy charaft were destroyed, 2 probably destroyed and 11 damaged,

25th/26th, 180 aircraft were sent out - ROSTOCK 110. Heinkel Works
18, DUNKIRK 32, Skoda Works FIZEN 6, Aerodromes 9. Leaflets 5, 5 bombers are
missing. Preliminary reports, ROSTOCK. Fine weather, many fires. 12 heavies and
5 Hampdens attacked one Heinkel works. Only 1 aircraft reached PLZEN. About 80
enemy aircraft came overland and dropped bombs chiefly in southwest ENGLAND,
especially in the ERISTOL and BATH areas. Night fighters shot down three and
damaged one. No serious damage was done but casualties are reported to be fairly
high.

LIBYA. 24th. Kittyhawks attacked a camp and mechanical transport shot down one Me. 109 and probably destroyed another. 2 aircraft are missing.

MALTA. Between 2.0 p.m. 23rd and 1.15 p.m. 25th 245 bombers with fighter escort attacked. Serious damage was caused to service and civilian property and a number of casualties have been reported. Seven of our aircraft were destroyed on the ground and 6 others damaged. Fighters and A.A. fire destroyed 8 enemy aircraft, probably destroyed 4 and damaged 27. 2 of our fighters are missing and 3 crash landed, pilots safe.