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War Savings Bonds
See Financing, Government

May 1, 1942
9:30 a.m.

GROUP MEETING

Present: Mr. Gaston
Mrs. Klotz
Mr. Sullivan
Mr. Buffington
Mr. Bell
Mr. Thompson
Mr. Schwarz
Mr. Kuhn
Mr. White
Mr. Haas
Mr. Foley

H.M.JR: George, when do I get this thing again? This is April 22.

MR. BELL: You get it next Monday, don't you, every week?

MR. HAAS: No, this is a monthly thing.

H.M.JR: Monthly?

MR. HAAS: Yes.

H.M.JR: All right.

MR. HAAS: Shall I take it back?

H.M.JR: Well, you had better leave it here until I get a new one.

MR. HAAS: All right. You will get it about the - I

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think they do that about twenty days after the close of the month. You see, those reports come in from each company.

H.M.JR: Herbert?

MR. GASTON: Our Collector in Puerto Rico has accumulated a reserve fund anticipating that the collections might fall off. She has accumulated a reserve fund of eight hundred thousand dollars which I think is a pretty large reserve fund. You know, the surplus collections according to law in Puerto Rico are paid from time to time to the Territorial Treasury. They pay the Treasury out of their collections and remit the balance to the Treasury. The collections have increased in the last year and a half and she has hiked her reserve fund from a total of a hundred and ten thousand dollars to a total of eight hundred thousand dollars. They have enough money to run the shop for three years if collections should fall off completely. We are taking up with Dan Bell's department a little better system for accounting there, but I also think that we want to cut her down on that reserve fund. I don't think that any such sum is necessary. I think five hundred would probably be a great plenty.

H.M.JR: I didn't know there was such a thing.

MR. GASTON: It is rather interesting.

H.M.JR: Anything else, Herbert?

MR. GASTON: I sent out the message to Detroit to get that information Biddle wanted about the German film being shown out there. I haven't gotten a reply yet.

H.M.JR: You will be amused that the President sent me yesterday a complaint against the Coast Guard over his own signature.

MR. GASTON: He did?

H.M.JR: But I didn't think he would appreciate my humor so I just forwarded it directly to Waesche.

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MR. GASTON: I got a telegram here day before yesterday from a naval officer up in Alaska saying, "Revoke your order of so and so about the hours that they entered certain ports there." Of course the Secretary of the Navy can revoke it but we can't revoke it. I noticed some gossip about a change in the Maritime Commission, the suggestion that Joe Kennedy might replace someone over there. I have got a suggestion of a man who would be good.

H.M.JR: Who?

MR. GASTON: Harry Durning. He knows the people and he is a real driver. He is really loyal to the Administration. He could handle it.

(Mr. Graves entered the conference.)

H.M.JR: It is an idea. The President hasn't asked me.

Mr. Foley?

MR. FOLEY: We are working on a contract with the Defense Plant Corporation. You wanted the commitment in regard to the return of its commitment guaranteed by the RFC because the commitment guaranteed by the Defense Plant Corporation doesn't mean very much. They balked a little bit but - they are a little gun shy now, so I think they are coming through.

H.M.JR: Did you make a move on your Crowley matter?

MR. FOLEY: I did. I had a conference yesterday afternoon, and they are studying the papers.

H.M.JR: They are studying it?

MR. FOLEY: Yes. Our receipt and their order appeared in the Federal Register yesterday morning. They were published together.

H.M.JR: You (Buffington) might ask Purcell the next time you talk to him - you see I wouldn't call him up for

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this, George, but Crowley opposes break up of Standard Gas System, you see. That was in yesterday's Times on the financial page. Ask him how they feel about that. The interesting thing, "Because of high position in Administration circles, Mr. Crowley's stand on the integration of the death sentence provision of the Holding Act was considered of prime importance, particularly in view of the fact that last week the SEC in its final report to Congress said there should be no moratorium on the death sentence because of the war." I just wondered - you are talking to him all the time and when he calls you up - get this thing, because I want to keep this one for myself and ask him whether he is in tune with Crowley.

MR. BELL: I suppose there might be some accounting problems to work out on that silver thing. I would like to see that contract before it goes through. We ought to have some time to work out how we are going to show that on our statements.

MR. FOLEY: I will show it to you as soon as it is in shape.

H.M.JR: Mrs. Klotz asked me to ask you, "What about the President sending us over this letter?"

MR. FOLEY: I called Grace and she wasn't there, and her assistant wasn't there and Forster wasn't there, and I am going to call them this morning.

H.M.JR: I have got to clear that one way or the other this morning.

MR. FOLEY: I think that that was - that is the original of Jesse's letter, a copy of which he sent to us ten days ago. I think they just got around to sending it over. You see, the President's note was dated the twenty-ninth and the letter was dated about the twentieth.

H.M.JR: Will you clear it this morning, Ed?

MR. FOLEY: I will clear it this morning.

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MR. SULLIVAN: You recall that college, a colored beauticians' school in Chicago?

H.M.JR: I do not.

~~MR.~~ MR. SULLIVAN: Mrs. Roosevelt was interested in it. They owed us fifty thousand dollars in taxes. Last May we compromised it for seventeen thousand. They have only paid four of that, and they are not cooperating in any way at all, and the Commissioner wants to go after them.

H.M.JR: It is all right with me.

MR. SULLIVAN: You had had some correspondence with Mrs. Roosevelt and that is why I am telling you. We are going ahead on it.

H.M.JR: Do I get a report, Norman, on what Mr. Spingarn did?

MR. THOMPSON: Yes, I gave you a report.

MRS. KLOTZ: It went to Mrs. Roosevelt.

H.M.JR: The one I read was the one that went to Mrs. Roosevelt?

MR. THOMPSON: Yes, sir.

H.M.JR: There has been no subsequent one?

MR. THOMPSON: There was one ahead of that saying practically the same thing.

MR. FOLEY: Steve Spingarn has received a commission as a captain.

H.M.JR: In what?

MR. FOLEY: Well, they actually issued it in the Air Corps, but he is going to be assigned to General Carter, who is in Ordnance.

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H.M.JR: We know General Carter. He is an accountant.

MR. FOLEY: He is going to be General Carter's lawyer.

H.M.JR: He is an accountant, isn't he?

MR. BELL: Yes, I understand he is.

H.M.JR: Yes, he was the head of some accounting firm.

MR. FOLEY: Oh, I know him, too. He used to be Colonel Carter.

H.M.JR: Some New York accounting firm.

MR. FOLEY: Yes, that is right. I went turkey shooting with him a few years ago, yes.

H.M.JR: Could he hit a bull's-eye?

MR. FOLEY: Sure, he is a good shot.

H.M.JR: I don't know--

MR. BELL: He is a big shot now. (Laughter)

H.M.JR: He is the fellow that had this cost plus business.

MR. FOLEY: I didn't connect it to him at all. He is a nice fellow.

H.M.JR: Well, he is "General Carter, CPA." That isn't a British decoration, either.

MR. SULLIVAN: Do you remember we got a hundred and eighty-one of those big war contractors' names from Nelson?

H.M.JR: Yes.

MR. SULLIVAN: I have phoned three times since over the last six days, and we haven't the others, so I am asking George, who does more or less business with Nelson's

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fellows over there, to get the rest of them. We talked yesterday afternoon, and I asked him to wait until this morning to see if they came in, and they haven't come in. I don't understand it.

H.M.JR: Isn't that funny. Want me to call?

MR. SULLIVAN: No. I have talked to him twice, and I have talked to his secretary. They said they were getting them ready. That shouldn't take six days.

H.M.JR: Is that all?

MR. SULLIVAN: That is all.

H.M.JR: George?

MR. BUFFINGTON: Nothing.

H.M.JR: George is heading up a new sales organization without quotas. The sky is the limit. He is sales manager, publicity manager, radio manager, and--

MR. SULLIVAN: Have you got any tires to sell?

H.M.JR: He has got fifteen thousand high-powered salesmen working under him, plus Eccles. (Laughter) It is entirely separate. It is the Security Dealers of America.

MR. KUHN: We really have those films of the Town Meeting. They last for six minutes.

H.M.JR: How much?

MR. KUHN: I am told six minutes. I haven't seen them myself.

H.M.JR: Maybe I can see them right after lunch.

MR. KUHN: I am not sure that the theater is - I think the soldiers use it after lunch.

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H.M.JR: They last six minutes? Well, I will have Stephens figure it out.

MR. KUHN: There are some OCD people that are very anxious to see those. Can I ask them to come over sometime this morning?

H.M.JR: Well, you run it independently. I may get a chance to do it, you see.

MR. KUHN: But you wouldn't mind if I asked them over here to see it before you did?

H.M.JR: I would be delighted. I am not a first-run theater man. Stay behind, will you. I want to talk to you about something.

Harold?

MR. GRAVES: Nothing.

H.M.JR: Harold, at lunch today will you bring up to me, what system we are using. Now, I have got this book of the five hundred companies, you see.

MR. GRAVES: Yes.

H.M.JR: Now, the first five are U. S. Steel, General Motors, Bethlehem, Pennsylvania, General Electric, on the basis of number of employees. What can I do to get U. S. Steel, for instance, to put in a plan similar to General Motors? Or Bethlehem Steel or Pennsylvania to put a drive on?

MR. BELL: You mean a program like that?

H.M.JR: Yes, not a fiscal agency, a program.

MR. GRAVES: Bethlehem Steel has included a drive. It was in the New York Times of yesterday.

H.M.JR: I saw it.

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MR. GRAVES: That is involved in this proposition that I have told you about for us to take the road and go to these big states and talk with our people in each state. We are taking with us lists of all the corporations in each state.

H.M.JR: Yes, but that all revolves around you, and you won't be getting to it next week, as far as I know. There are some things I can do, for instance, like U. S. Steel or something.

Well, the whole list of five hundred. I mean, I would be willing to send a telegram to the presidents of the companies or something. I don't want to - I can not wait so long, Harold.

MR. GRAVES: We might communicate--

H.M.JR: May I give you an assignment. When you come in at noon today at lunch, talk it over. I want a definite suggestion from you what I, as Secretary of the Treasury, can do to contact the presidents of these companies and ask them whether they won't put in a plan, and say, "What can we do to help? We could make available the General Motors plan, or the people, for you. What can we do to help," you see. Here it is the first of May and - I mean I am perfectly willing to send a telegram to every one of these fellows and then a copy goes to the state administrators. I would like to send a telegram to every company that hasn't got a plan in to go after the ten-percent quota.

MR. GRAVES: Every company that has a plan?

H.M.JR: No, that has not.

MR. GRAVES: No, they all have plans, Mr. Secretary, except about ten of that five hundred.

H.M.JR: Let me say it over. To the four hundred ninety on this list, I would like to send a telegram asking them to put on a drive to get the ten percent.

MR. GRAVES: Yes, that is right.

H.M.JR: And I am perfectly willing to start a barrage of telegrams and telephone calls right from this desk, Harold.

MR. GRAVES: Yes.

H.M.JR: But until you fellows get around on your visit - you are not going to do it next week, it is a week after, and I can't wait.

MR. GRAVES: This doesn't meet your point very well, but you will remember that we sent out, two or three days ago, to every one of our twenty thousand companies this letter of yours over your name.

H.M.JR: Now, I want to send a personal telegram which would be on this fellow's desk Monday morning, very personal. "My dear Mr. President: President of the U.S. Steel. As far as I know your company has not inaugurated a plan to bring up the average payroll deduction to ten percent. What can I do to help help you get it started?" See?

MR. GRAVES: Yes.

H.M.JR: What can I do to help them get started. "I would appreciate an answer from you. What can I do to help you?" I think that would be the approach. Between now and lunch time.

MR. GRAVES: I will have something at twelve forty-five.

H.M.JR: I am getting a little restless. Have you got something?

MR. GRAVES: No, I have nothing.

H.M.JR: George?

MR. HAAS: The only thing I have, would you like to take a few minutes to look at some lay-outs of charts we are working on for this room?

H.M.JR: When?

MR. HAAS: Any time, Mr. Secretary.

H.M.JR: I can do it right after this meeting if you are ready.

MR. HAAS: All right.

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H.M.JR: I would just like to report that Mr. Bell and Mr. Haas and Mr. Henry Murphy did a very fine job all week for me on this new financing. If you haven't seen it, it is quite new and we have hopes it will be successful. The principal change in it was that the Federal Reserve, for about two months, were recommending that we sell tap issues which would be demand issues. Isn't that right?

MR. BELL: That is right.

H.M.JR: And they have changed from the recommendation of demand issues to - what do you call it, bearer?

MR. BELL: No, registered.

H.M.JR: Registered, which is all the difference between day and night, and we are now going, starting Monday - anybody can buy any quantity of - it will most likely be a 20-25 year two and a half percent bond but it is not salable to the banks for the first ten years. We will see what happens. That is what the salesmen are going to go to work on.

MR. GASTON: It is a registered issue not transferable to a bank?

H.M.JR: A bank can't buy it for the first ten years it is outstanding.

MR. SULLIVAN: Will they take it as collateral?

MR. BELL: They can take it as collateral. They have to dispose of it if they take it--

MR. SULLIVAN: I see.

MR. BELL:under fault, the same as they have to dispose of other assets not eligible for bank holding.

MR. GASTON: Freely transferable between other individuals and corporations?

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MR. BELL: That is right. It is a marketable security just like any other registered security except the banks can't own it.

H.M.JR: They can't transfer it for sixty days.

MR. SULLIVAN: All banks or just national banks, Dan?

MR. BELL: All banks accepting demand deposits.

H.M.JR: And then the other important thing is, the Federal Reserve guarantees to maintain the bill rate at not higher than three-eighths of one percent.

Graves, you wanted to see those charts, didn't you?

MR. GRAVES: I would be glad to.

H.M.JR: When George brings them, just take a minute. Where are they, George?

MR. HAAS: I can get them started.

H.M.JR: Why don't you phone them? Chick?

MR. SCHWARZ: I have nothing.

H.M.JR: Mr. White?

MR. WHITE: Phillips was here day before yesterday and left a memorandum giving their concept of how the British Lend-Lease in reverse procedure should operate. The policy that they would like to see initiated is - I have it here and I think you might like to glance at it over the week end, or devote fifteen minutes or so sometime next week to go through it.

H.M.JR: I would rather have you come in and sit down with me, Harry, next week.

MR. WHITE: Bewley was in to show me some telegrams that he received with respect to the Persian matter.

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One of the things that they have requested of us, the State Department requested of us and he repeated, was whether we would purchase through the Stabilization Fund Egyptian pounds and then sell those Egyptian pounds to them. It is an operation which would cost us nothing. There is no risk involved. The Stabilization Fund has never done anything of that character. I said I thought we would, but I would take it up definitely when they came to a definite agreement with the Persian Government. Apparently it is going to cost them less than they thought it was. They thought it would be five million a year.

H.M.JR: We just act as a sort of a clearing house?

MR. WHITE: That is all, for the peculiar reason that they think it will save their face if we buy the Egyptian pounds and sell it to them rather than if they buy it directly, because they have taken the position with the Egyptian Government that they would not do so and they don't want to be placed in the position before the Egyptian eyes of having to retract their former statement. I don't think it will fool anybody.

H.M.JR: Well, before you do it will you clear it with me once more?

MR. WHITE: Yes, and I will clear it with others as well. There was an embargo placed on silver--

H.M.JR: You wouldn't know it but my understanding is that the British Government are paying somebody in Persia five million a month to stay neutral, isn't that it?

MR. WHITE: I don't know as you would want to put it that way. They are not neutral in any case. I don't think five million pounds will make them neutral. They hate the British guts and five million won't buy them off, but they have been insisting on getting gold instead of sterling and they have reached an impasse because the British absolutely had to have Egyptian currency with which to pay their soldiers.

H.M.JR: What is the five million for?

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MR. WHITE: Five million was going to be to give them gold, not to keep them neutral, but so the British could get currency with which to pay their soldiers.

H.M.JR: Pay whose soldiers?

MR. WHITE: British soldiers.

H.M.JR: Oh, British soldiers?

MR. WHITE: And pay some other expenses.

H.M.JR: I thought this was a straight payment to the Persians.

MR. WHITE: It is a payment. Persia will give them the paper currency and has been giving it to them hitherto, but now it refuses to give them any more unless they get gold. They will not take any more sterling. Now, it is true that it is partly to keep them neutral or to keep them in as good humor as is possible under the circumstances.

H.M.JR: But this payment goes to English soldiers in Persia?

MR. WHITE: No, it goes to the Egyptian Government who in turn gives them Egyptian currency, and the currency goes for British expenses in Persia.

H.M.JR: Say that again.

MR. WHITE: The Egyptian Government gives the British Government local currency. The British Government gives the Egyptian Government gold, or they will give them gold instead of sterling as they have been giving them hitherto. Sterling balances which the Egyptians justly say they can't use anyway. The Egyptians - the British Government then takes the local currency and pays their expenses in Egypt.

H.M.JR: Pays whose expenses?

MR. WHITE: British Government's expenses.

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H.M.JR: In Egypt?

MR. WHITE: Yes, soldiers and supplies.

H.M.JR: What has that got to do with Persia?

MR. WHITE: Oh, did I say Egypt? I meant Persia right along, Iran. Forget Egypt. Egypt is another matter.

H.M.JR: You said Egypt right along.

MR. WHITE: I was in error. There was another story about Egypt. That is why I had it in my mind. Egypt has got nothing to do with this.

MR. BELL: Say it again.

(Discussion off the record.)

MR. WHITE: There has been an embargo placed on silver exports by the Board of Economic Warfare some time ago. I thought you would be interested in knowing that. There is also being contemplated priorities in the use of silver in the United States. In fact, some of it has already started, though I don't think it is official. Did Mr. Baldwin get in touch with you?

H.M.JR: Yes, the letter is in the process of being written.

MR. WHITE: Good.

H.M.JR: Most likely it won't be what he wants, but it will be as good as the letter I wrote for NYA.

MR. WHITE: It should be better, Mr. Secretary, for you to be consistent.

H.M.JR: I will be consistent.

MR. WHITE: Well, if you are consistent it will be a good letter because you took a very definite position on Farm Security.

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H.M.JR: We are going to quote that. Is that right, Dan?

MR. BELL: Yes, sir.

MR. WHITE: Would it be asking too much if I could take a look at it before you sign it?

H.M.JR: No.

MR. BELL: You can write it if you want to.

MR. WHITE: If Mr. Bell is too busy I would be glad to write it. (Laughter) Or even if he isn't too busy.

MR. BELL: It came out after all.

H.M.JR: I think with this Egyptian connection, you had better let Bell write it.

MR. WHITE: Well, I will see it before it goes?

H.M.JR: Yes, Mr. Bell says he will be delighted to let you see it.

MR. BELL: I certainly will.

MR. WHITE: The Cuban report was handed to the Cuban Government. We have now sent one man from the Treasury and one man from Farm Credit down to Cuba to prepare the draft of the agricultural bank and we probably will now have to send somebody to Guatemala, because we promised we would do so after the Cuban report was ready, but I will let you know when that time comes. I think the time may be ripe--

H.M.JR: How long are you going to have somebody down in Guatemala?

MR. WHITE: Oh, not long, a few weeks.

H.M.JR: My candidate won't do.

MR. WHITE: We can keep them as long as you want.

(Laughter)

H.M.JR: All right.

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MR. WHITE: I am wondering whether you might not think it wise to appoint a small committee to prepare both legislation and a report for the cessation of expenditure on armaments the moment either armistice - whenever the President sees fit. We are spending a hundred million dollars a day. There doesn't seem to be any earthly use for those expenditures. The moment the war stops - last war I think we spent a lot of unnecessary funds, and something could be worked out to take care of the people who would be unemployed, and still save the Treasury an awful lot of money. Now, when that will be necessary, I don't know; but I should imagine there is a lot of preparatory work to be done before you could get an appropriate plan tucked away to bring out when--

H.M.JR: Well, give me a little memo on it, just what you have in mind.

MR. WHITE: All right. That is all I have.

H.M.JR: Dan?

MR. BELL: I have nothing.

MR. THOMPSON: I have a couple of deferment cases for Harold Graves.

H.M.JR: All right. We will do them right away.

MR. FOLEY: Mr. Secretary, on the silver thing, I sent in a memorandum last night saying that we could sell about five million ounces of silver that we have on hand. We acquired that silver over a period of time now at an average price of around forty-three cents an ounce, and the suggestion was made that we probably would want to talk with the "silver Senators," because when we were talking with them the other day, we didn't think that the amount was that large; and we were talking merely about the Philippine silver, and this silver is--

MR. WHITE: We said several million.

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MR. FOLEY: This silver is what you get when you refine gold and some of the other metals.

H.M.JR: Well, you and Harry handle it, and be sure and let the committee know before you do anything.

MR. FOLEY: Yes. We made the suggestion that perhaps you might want to sell it to the Metal Reserve Corporation, and then they could market it at any price that wouldn't upset the market price and absorb the loss.

MR. WHITE: Would you be willing to sell silver and take a book loss?

H.M.JR: No. If we sell it to Metal Reserve, I would want--

MR. FOLEY: At the average price, forty-three cents an ounce.

H.M.JR: Well, then Jones would normally add two cents for legal fees and overhead, so I would sell it to him for about forty-five cents.

MR. FOLEY: And let him take the loss?

H.M.JR: Yes.

MR. WHITE: Well, that is appropriate if it is going to be sold for war purposes.

MR. BELL: Where do you get your authority to sell it?

MR. FOLEY: Well, it is the same authority, Dan, that we have always had. The prohibition in the Silver Purchase Act applies to silver that we got under the Silver Purchase Act, and there is no prohibition against selling this kind of silver.

H.M.JR: Average price.

MR. FOLEY: The average price is forty-three cents.

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H.M.JR: If there is any question--

MR. FOLEY: We sell it for medals and things like that all the time.

H.M.JR: Dan doesn't know what happened on the Hill. Why don't you go in and talk to him for five minutes now?

MR. FOLEY: I will.

May 1, 1942
12:32 p.m.

HMJr: Hello.

Randolph

Paul: Hello. This is Paul.

HMJr: This is Morgenthau.

P: Yeah. Look, I wanted to be sure before I went to lunch that that memorandum got to you. We couldn't get it to Mrs. Klotz, because she was in with you, and we got it to Miss Chauncey's office, and I wanted to be sure that you had it before we got out of touch with you. We were going over.....

HMJr: No. I appreciate it, but it's - I have it actually in my hand this minute. I have it in my hand.

P: Oh, that's swell. Now, I'll just tell you, as long as you're on the wire, that shortly after we assembled this morning.....

HMJr: Yeah.

P:the committee went into private session.....

HMJr: Yeah.

P:excluding Stem and us.....

HMJr: Yeah.

P:so we're just working on the next thing.

HMJr: Good.

P: And I suspect they'll be in session all day today on it.

HMJr: Good.

P: All right.

HMJr: Thank you. Good-bye.

May 1, 1942.

Roy Blough

Secretary Morgenthau

Please give me a memo of our Conference Thursday morning of the recommendations you and Paul made, and what I said. Be sure and do that today and give it to Mrs. Klotz. If I remember rightly, you had a memo with you, but you didn't leave me a copy of it. You can attach your memo of our conversation to that, if I'm correct. Be sure and do it today. I would like to have a memo of what happened in the Committee after you left me on the matters that we discussed earlier in the morning, also.

Given to Mrs. Klotz 5/1/42-

May 1, 1942

MEMORANDUM FOR THE SECRETARY

Subject: Conversation on taxes, 8:30 a.m., Thursday, April 30, 1942.

At Secretary Morgenthau's request Mr. Paul and Mr. Blough rode to the office with the Secretary. Mr. Paul outlined the corporation tax plan shown in the attached undated memorandum. This plan was drawn up Wednesday afternoon in conference between Mr. Paul and members of his staff and Mr. Stam and members of his staff, at the request of the Committee on Ways and Means.

The excess profits tax proposals contained in the plan are also described in today's memorandum, a copy of which is attached.

With respect to the excess profits tax proposals, Mr. Paul explained that he and Mr. Stam were in full agreement. They were also agreed that if the war surtax rate was made as high as 16 percent (so that the combined normal and surtax rates totalled 40 percent or more), the war surtax relief proposed by the Treasury should be provided for those corporations whose earnings had declined since the pre-war period. They also agreed on the amount of the relief, which is shown in the memorandum but which Mr. Paul did not go into in detail.

Mr. Paul explained that he and Mr. Stam were not in agreement on the rates at which the war surtax should be applied. Accordingly, it was agreed to set up a schedule of such rates ranging from 12 to 31 percent (which would make the combined normal and surtax rates range from 36 to 55 percent.) This schedule was to be submitted to the Committee so that it could decide which rate schedule it wished to adopt.

The Secretary asked about the basis for computing excess profits, saying that Mr. Sullivan had indicated recently that the Government should have the option of

- 2 -

average earnings or invested capital, instead of the taxpayer having this option. Mr. Paul pointed out that the Committee had shown great hostility to any change from the present method of giving the taxpayer the option of average earnings and invested capital credits. He said he thought we would have a long fight on our hands if any attempt was made to disturb this option or to give the option to the Government instead of the taxpayer.

The Secretary approved the presentation of the plan to the Committee. He said that he did not understand all of it and did not have time to go into it in more detail; then said, perhaps facetiously, that if it turned out well he would be for it while if it did not he would say it had never been really explained to him.

Roy Blough

Excess profits tax plan

- (1) Impose a flat 90 percent tax upon every dollar of adjusted excess profits net income.
- (2) Reduce the normal and surtax net income by the amount of the adjusted excess profits tax net income, and impose normal and surtax on the balance.
- (3) Raise specific credit to \$10,000.
- (4) Rates for invested capital credit:

8 percent on first	\$5,000,000
7 percent on next	5,000,000
6 percent on next	190,000,000
5 percent on the balance	

Alternative excess profits tax rate for No. 1

100 percent tax on income in excess of 200 percent of credit or \$10,000,000 whichever is greater.

90 percent on the balance

- (5) Normal tax - 24 percent (no change for small corporations)

War surtax (including normal tax)

Large corporations - total normal and surtax

Query, whether rate should be	55 percent
" " " "	50 percent
" " " "	45 percent
" " " "	40 percent
" " " "	36 percent

Agreed, that if the total normal and surtax is left at 36 percent, no relief from surtax will be necessary. Otherwise certain relief will be necessary in distressed corporations in the case of surtax.

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Appropriate relief under war surtax for any rate of 40 percent or more, as follows:

If surtax : rate is :	War surtax relief should be
31%	10% of the difference between the taxable year surtax net and base period surtax net but not in excess of 20% of the current year surtax net
26	10% and 12%, as above
21	10% and 9%, as above
16	10% and 6%, as above

Small corporations

Agreed, that if 40 or 36 maximum is adopted, surtax on small corporations will be 10 percent. If the rate for large corporations is 45 percent, the small corporation rate should be 12 percent; if 50 percent, 14 percent; if 55 percent, 16 percent.

4/29/42

May 1, 1942

MEMORANDUM FOR THE SECRETARY

Re: Excess profits tax plan jointly presented to Ways and Means Committee by Mr. Paul and Mr. Stam, April 30, 1942.

1. Rates of excess profits tax.

The excess profits tax would be imposed at a flat rate of 90 percent on excess profits up to the point where the corporation earnings were double the pre-war earnings (or double the invested capital credit); and would be at a rate of 100 percent on excess profits above that point. However, the 100 percent rate would not apply in any case to the first \$10,000,000 of excess profits.

(At the present time the excess profits tax rates range from 35 percent on the first \$20,000 of taxable excess profits to 60 percent on taxable excess profits above \$500,000.)

2. Excess profits would be subject only to the excess profits tax; the normal tax and war surtax would not be imposed on excess profits.

3. The specific exemption for excess profits tax would be increased from \$5,000 to \$10,000.

(This would reduce the number of corporations affected by the excess profits tax and would somewhat offset for small corporations the elimination of graduated rates.)

4. The optional invested capital credit which is now 8 percent on the first \$5 million and 7 percent on the balance would be:

First \$	5 million	- 8 percent
Next \$	5 million	- 7 percent
Next \$	190 million	- 6 percent
All over \$	200 million	- 5 percent

5. The average earnings credit would remain the same as under existing law.

May 1, 1942

MEMORANDUM FOR THE SECRETARY

~~Subject:~~ Action in Ways and Means Committee up to
3 p.m. Friday, May 1, 1942.

Immediately after the opening of the executive session at 10 a.m. Mr. Boehne told the Committee that he thought it should meet in private session with all the experts excluded. This was agreed to by the Committee. The Committee sat until nearly 1 p.m. before recessing.

The Chairman and members of the Committee reported after the morning session that the Committee had decided not to take either the 90 percent or the 100 percent excess profits tax rates but had adopted 94 percent. The 94 percent excess profits tax would be the only tax applied to excess profits. This method of tax computation was the one submitted jointly by Mr. Paul and Mr. Stam on Thursday.

The Committee also adopted the proposal of Mr. Paul and Mr. Stam for lowering the invested capital credit in the case of large corporations and also the recommended increase in the specific exemption from \$5,000 to \$10,000. The Committee readopted the present normal tax rate scale.

The Committee did not act on the war surtax rate scale in the course of the morning session. Congressman Cooper reported to Mr. Paul that the proponents of the 40 percent combined normal tax and surtax (that is, a 16 percent war surtax and 24 percent normal tax), appeared to have a majority of votes but that he was hopeful of getting 45 percent and was going to try strongly for 50 percent as a means to that end.

The Committee reassembled at 2 p.m. There has been no further word from the Committee at 3:20 p.m.

Roy Blough

May 1, 1942
4:39 p.m.

Randolph
Paul:

Yes, sir.

HMJr: .

I'm leaving in five minutes. What's on your mind?

P:

I wanted to tell you, merely, that they took a vote.....

HMJr:

Yeah.

P:

.....they took their final vote and they decided on a total surtax and normal tax rate of forty per cent.

HMJr:

Yeah. Well, somebody gave me that. Stephens gave me that.

P:

All right. Well, I wanted to report to you, that's all.

HMJr:

What are you going to do this week-end?

P:

Oh, I'm going to be around here.

HMJr:

Aren't you going to get a little rest?

P:

Well, I can't go away, because I can't get back if I do.

HMJr:

How's that?

P:

You can't go up to New York, because you can't get back from the place.

HMJr:

Well, take it easy.

P:

Okay. Thanks.

HMJr:

Good-bye.

TREASURY DEPARTMENT

29

INTER OFFICE COMMUNICATION

DATE May 1, 1942.

TO Secretary Morgenthau
FROM George Buffington G.B.

The securities people have contacted every market in the United States and as of 3 o'clock, sales meetings are being held by all organizations throughout the country in connection with the Treasury offering Monday, May 4, 1942.

5/1/42
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Telegram received this morning from John A. Hartford, President, Great Atlantic and Pacific Tea Company, New York:

"Re Treasury Department's telephone inquiry:

Wholesalers and food chains are curtailing purchases and reducing inventories to take advantage of new low prices. Manufacturers and processors attitude, we believe, will bring about March levels in many cases before May 11. Have surveyed commodities affected, and believe order not too burdensome. The few obstacles can be easily surmounted. Think retail operation will run smoothly when prices become effective. We have already reduced number of lines to avoid making drastic drop in retails and lessen shock. Think other distributors will follow.

Favorable consumer reaction is outstanding. Have checked cross section of our stores in five areas to determine reaction of consumers. Generally consumers are found to be very conscious of ceilings and grateful measures being taken to freeze living costs. Hoarding materially diminished last ten days. Practically none noted today except in tea and coffee. Summary of comments by areas are as follows:

Pittsburgh: Buying normal. Cannot say price ceiling announcement stopped hoarding since no hoarding evident in last week. Considerable comment in stores by customers, largely good-natured remarks such as "You'll have to get your prices down now." Most interest in meats. Many questions asked as to effect on meat prices, but no noticeable holding up on buying. All comment by consumers indicates they think they have been paying too much for food and welcome change. Coffee hoarding started last Tuesday but notable drop-off noted yesterday and today.

New York and Westchester County: Comments heard in stores all favorable toward price ceilings. Business slow today but attributed to other causes, including extra warm weather, stoppage of sugar sales, and fact that much moving is taking place around first of month. Little hoarding noted in last two weeks except of tea and some coffee; no change in this noted today. Small percentage of customers have asked, when are we going to post our ceiling prices.

Philadelphia: Sales this week less than last but Wednesday showed smaller loss against week ago than Tuesday. Buying about normal today. One organized womans group commented: ceiling is more necessary on dairy products than on many commodities announced. This especially true of butter. Have noted extra run on tea all this week, and no apparent change today.

- 2 -

Chicago: Customers generally aware of ceiling announcement but somewhat confused and have asked many questions. General attitude is one of pleasure, in fact cost of living will be reduced. Have had numerous inquiries on whether our prices will be lower and on what items. A few said they would be careful about buying now because prices are coming down. Business slightly off but also attributed to no selling of sugar, unusually warm weather and month-end buying. More characteristic of large cities than small, and similar to New York.

Jacksonville: Few expressions heard in stores but all comments reflected appreciation on part of customers that prices will be lower. Inquiring when reductions will be made. Sales normal. No apparent hoarding for last two weeks."

(Mr. Edegar's memo) 32
Approx 5/1/42

There are in the United States upwards of 50,000,000 persons gainfully employed and therefore receiving income at more or less regular intervals. These constitute the basic market for War Savings Bonds.

Our problem is to increase from 7,000,000 to at least 30,000,000 the number of such persons buying War Savings Bonds more or less regularly.

To accomplish this, the following plan and program is suggested:

I. PAYROLL SAVINGS.

We must by the 1st of July increase the number of workers participating in payroll savings plans from approximately 9,000,000 to 25,000,000.

The machinery for accomplishing this has already been worked out. Fundamentally, it involves the application in upwards of 55,000 firms of promotional methods similar to those now employed in General Motors and General Electric.

The payroll savings job involves a two-fold task. First, to increase the total number of employees participating in this form of purchase, and Second, to increase the average monthly saving per employee.

If this is to be accomplished and we are to maintain a high level of saving and participation, we must reduce the problem of promotion and follow-up to manageable proportions. In every plant persons must be designated to act as representatives of the War Savings Staff, each of whom will be held responsible for a small number of his fellow-workers. Only in this way can we be sure of a more or less continuous supervision in the operation of payroll savings plans.

II. INCOME RECEIVERS NOT COVERED BY PAYROLL SAVINGS PLANS.

Outside of those persons who can and will be reached through payroll savings plans in the larger establishments there are upwards of 30,000,000 income

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receivers in the United States who must be induced to purchase War Savings Bonds systematically. The major task of our organization will be to enlist this great army of savers.

HOW IS THIS TO BE DONE?

A. ORDER OR PLEDGE FORMS.

It is proposed that the Treasury provide pledge or order forms to authorized agents or solicitors of the War Savings Staff. These order forms would be in triplicate and would in every case indicate the name of the issuing agent suggested by the prospect from whom he says he will purchase his bond or bonds. That is to say, the solicitor would in the proper place write in the name of the particular bank, post office, or other issuing agent preferred by the purchaser. These forms would indicate of course the denomination of the bond or bonds, ^{and} the intervals at which the prospect agrees to make his purchases.

The original of the signed form will be retained by the prospect; the duplicate will be delivered by the solicitor to the designated issuing agent; the triplicate will be retained in the files of the local War Savings Committee.

The prospect purchaser will then either in person, by mail or messenger, deliver the original signed form, together with the amount due, to the designated issuing agent; whereupon a bond or bonds will be issued to him. When the purchase has thus been completed the issuing agent will thereupon remove the duplicate order form from his files and dispose of it. The original form, delivered by the purchaser will be retained by the issuing agent as an order for the regular purchase of War Savings Bonds at stated intervals and/or as a record of a

single completed transaction.

If, after a reasonable time as indicated on the duplicate form held by the issuing agent, the prospective purchaser fails to deliver the original with his remittance and thus complete the transaction - the designated issuing agent, will send him a reminder suggesting that he fulfill his agreed pledge at the earliest possible time. Until the transaction is completed the duplicate form will remain in the files of the issuing agent.

At regular intervals of say once a week, employees of the War Savings Staff will call at the Office of issuing agents to check their duplicate forms against the originals representing completed transactions. These checks will notify the issuing agents of those to whom reminders should be sent. In those cases where such reminders have failed to elicit a response from the pledgor - the War Savings Staff either directly or indirectly will make a personal appeal to the pledgor to learn why he has failed to fulfill his pledge.

Some such plan would insure the necessary follow-up which is so essential to the success of this type of solicitation.

B. METHODS OF SOLICITATION.

The first step in reaching the millions of employed persons who are not participating in payroll savings plans is to make personal contact to persuade them to sign a pledge, order or authorization form. To carry on this "grass roots" promotional activity, it is vitally necessary that War Savings Committees or their representatives be appointed to take responsibility for a limited number of people and to see to it that they invest as much of their current earnings as possible in War Bonds and Stamps every week or month throughout the year. For example, in every factory, department store or other place of business, committees or agents should be designated who can apportion the total personnel among

themselves so as most efficiently and continuously to carry on the person-to-person promotional work that is so vitally necessary.

Ideally, this might mean a War Savings Committee or Agent for every 10 or 20 workers in a plant; for every 15 or 20 farmers, and for a similarly limited number of teachers, doctors, lawyers, salesmen, employers, and every other wage earning and income-receiving group. Ideally, too, such committees and such agents should be recruited from among the group for which they have responsibility. Thus, a War Savings Committee, to reach every lawyer, should be made up of members of that profession. The War Savings Committee to promote the sale of War Bonds among workers in mines and factories should likewise be composed of men who themselves are employed in those mines and factories, and hence are in daily association with their fellow employees. Committees so composed will not only be in a position to carry on a continuous promotional effort, but because they enjoy the friendship and confidence of those to whom they appeal, their efforts are more likely to be successful.

If this is done, we shall not only insure success for the initial campaign itself, but we shall have an organization which can follow through to the end that these Pledges and/or order forms may be fulfilled.

It is not intended to lay down any hard and fast rules for the conduct of the canvass throughout the Nation. In each State, the responsibility for the success of the program will rest with the State War Savings organization, including the local and county committees. These groups will be expected to design methods to meet the varying problems and conditions found in the different local communities. While it is not intended that the canvass start throughout the

simultaneously, it is suggested that the campaigns be Statewide unless some exceptional condition should prevent all parts of the State from beginning at the same time. The date for each State's program shall be left to the discretion of the State Chairman and State Administrator. Thoroughness in planning and conducting the campaign is more to be desired than speed.

The first step in the organization is to arrange a meeting with the local committee heads, or a series of meetings throughout the State with all members of the local committees, including any additional permanent appointees that are necessary to give you full representation of every section of the State. Included, too, should be representatives or heads of any labor, social, civic, commercial, or patriotic groups that are not now represented on your local committees. You may then decide to set up special Committees for this purpose. Each such Committee in each community (city, town, county, parish, or district) would then set about to district its area and secure workers. The number needed will depend on the geographic area and the population involved. The organizations listed in Section 6 of "Suggestions to State Administrators" (page) have recently offered their services to the Defense Savings Program. In addition there are many groups, such as the D.A.R., Rotary, Kiwanis, Lions; fraternal orders such as Masons, K.of C., I.O.O.F., Elks, Moose; professional associations, such as medical societies, bar associations, numerous neighborhood and community clubs, citizens, associations, Labor Union Auxiliaries, Parent-Teacher organizations, and numerous women's clubs. All these can be called upon to take part.

The following suggestions for the actual conduct of the canvass are offered for your serious consideration:

1. Group-Occupation Canvass.

This canvass would be conducted by having a committee set up to handle

each of the major occupational groups which, together, include a majority of the people with regular income in the Nation. This committee would contact every person within its group at his place of business or employment. In towns and cities where Community Chest, community drives, or centralized annual charity drives are held, similar plans of contact with the employee at his or her place of employment have been successfully carried out. In every factory, store, office or other place of business, committees or agents would be designated within the firm to carry out the Canvass. These committees could then serve as permanent War Savings Committees in these places and among these groups. A list of such groups and places of employment, showing the number of workers in each, is available in every town and city.

Persons employed in Manufacturing and Mechanical industries, Transportation and Communications, Trade, Forestry, Fishing and Mining, and Clerical groups total nearly 30,000,000. Practically all of these can be reached at their place of employment through a systematic occupational canvass, by committees or agents, each responsible for a limited number of persons. Some groups can best be reached through arrangement with their central headquarters or through their central mail depots by committees or agents designated by the Postmaster or by an official of their own organization. Similar arrangements might be made in the case of Telephone Operators, Railway Employees, and Mine Workers.

It would be possible, in like manner, to reach all public and governmental employees. Professional groups, such as Teachers, Doctors, Lawyers, Dentists, and Nurses can most effectively be canvassed through committees of their own professions. Those relatively few people whose income consists wholly of dividend, rent or interest payments could most effectively be solicitors of the Investment Bankers Association.

2. Rural Canvass.

The United States Department of Agriculture has volunteered to handle the campaign among all farmers and ranchers in every State in the Nation. The rural canvass will be conducted through the active cooperation of the State and County U.S.D.A. War Boards, which are composed of representatives of most of the governmental Agriculture agencies operating in the State and counties. The Chairmen of the War Boards are the ranking Agricultural Adjustment Administration officials, in each State and county. The AAA has requested that these Agricultural War Boards be given the exclusive responsibility for the rural canvass so that there will be no conflict of duties, or duplication of effort by other farm organizations.

It is very important that each State Administrator contact the State Chairman of the U.S.C.A. War Board and arrange for proper contact between the local War Savings Chairman and the County U.S.C.A. War Chairman. Together they can work out the details of the canvass, distribution of forms and literature, as well as the collection of forms after the canvass.

Thus, through the "Group-Occupation" and Rural Canvass, 44,860,763 persons can be given an opportunity to sign a Pledge Card. If well planned and conducted, such a canvass need not involve any serious duplication.

3. House-to-House solicitation.

Note: I have tried to outline below some of the arguments against house-to-house solicitation. For certain limited purposes such as launching our campaign and for more sustained promotion in small towns it has considerable merit.

A nation-wide house-to-house canvass of every employed person in the United States would be a task of gigantic proportions. Only the national decennial census compares with it in magnitude. To "ring every door bell" in the country would necessitate the organization and training of well over a million solicitors. This of course can be done, but it would be extremely difficult to keep such a vast organization of volunteer workers together on anything like a permanent basis. This would not be made easier by the competition for voluntary community workers among various war agencies like OCD, OPA, USOA, War Boards and others. Nor could we hope to enlist the aid of these other agencies except upon a temporary or episodic basis. Yet a comparatively stable and permanent organization is vitally necessary for our bond program if we are to have continuous effort and effective follow-up.

Solicitation by house-to-house canvassers would necessarily be of a miscellaneous and impermanent character. That is, the solicitors by and large, except perhaps in small towns, would be strangers or at most casual acquaintances of their prospects. It is highly improbable that they would be on a first name basis, a basis of friendship and common interest, with those upon whom they called. As a general rule the house-to-house canvass would bring together as solicitor and prospect people who are not in continuous or daily association with one another and who do not have a common interest based on association through group or occupational organization.

The analogy of the Fuller Brush salesman is only partially valid. House-to-house salesmen of this kind are hired employees, working for a living and paid by the company in regular wages and/or commissions. Our solicitors or salesmen

would be volunteers. Fuller Brush salesmen carry on cash transactions with their customers. Under no circumstances could we run the risk of authorizing hundreds of thousands of volunteer workers to accept money on behalf of the Treasury.

It is important to note also that the house-to-house salesmen, whether of Fuller brushes or any other such commodity, is in no position to exert coercion or compulsion upon his prospective customers. No one can be accused of being an unpatriotic "slacker" because he refuses to buy Fuller brushes or Wear Ever aluminum, or Hoover Vacuum Cleaners. This is not so in the case of those who refuse for any reason to buy War Savings Bonds. The dangers of over-zealous promotion of this kind would be greater under a house to house plan of solicitation than under the group occupation plan. This would be so because the house to house solicitors would, as I have said, be strangers, not on a first name basis with their prospects and not in continuous and friendly association with them. They would consequently be less reluctant to exert pressure of this kind than if they were fellow workers in the same shop or fellow members of the same group, profession or association. The effect of such coercive methods of promotion would inevitably tend to increase redemptions and would certainly not improve public morale. A nation does not achieve unity of will and purpose by promoting a nationwide game of hounds and hares.

Finally it is my impression that the American people do not like house to house salesmen. Anyone who has had experience in this field knows the latent and often active hostility with which the average householder greets the house to house salesmen. I suspect that this hostility helps to explain the almost universal dislike which house to house salesmen have for their jobs. I am not

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suggesting that this would be true of salesmen or solicitors for War Bonds, but it is one aspect of the problem which should not be overlooked.

Submitted by Mr. Gamble approx 5/11

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List of the approximately 50,000,000 persons who receive some type of income in the United States:

			<u>Billions</u>
A.	(1) Firms of over 100 (34,168)	19,190,040	39.5
	(2) Railroads (167)	1,400,000	3.1
	(3) Federal Government	1,700,000	3.5
	(4) State and Local Government	<u>3,200,000</u>	4.0
		25,490,040	
	(5) Firms with 50-100 (39,619)	2,723,479	5.7
	(6) Firms with 10-50 (295,538)	<u>5,926,015</u>	12.3
		34,139,534	
B.	(7) Farmers	7,000,000	11.0
C.	(8) Profession groups, such as doctors, dentists, lawyers, teachers, nurses, clergy, technicians, musicians, etc.	3,500,000	10.4
D.	(9) Employees of firms with less than 10 persons; self-employed, other than professional; small groups of persons who do not work but have regular income; armed forces	<u>6,000,000</u>	<u>15.0</u>
		50,639,534	104.5

Our procedure in reaching these people, in the order of their importance, to this program, should be as follows:

1. Under Group A, employees of firms over 100, the railroad workers, the Federal, State and Local Government employees, totaling 24,890,040 persons, should receive our first and most energetic consideration. At the present time, about 10,000,000 of these persons are on Payroll Savings Plans setting aside approximately \$8.50 per month for the purchase of War Savings Bonds. We must immediately see that Payroll Savings Plans are installed in every place where more than 100 people are employed in the country. Our success in installation to date would indicate that

-2-

this goal can be achieved within the necessary time limits. It is equally important that the extent of salary by the individual employee be raised from slightly over 5% to a minimum of 10% in the same period of time. This whole operation is of paramount importance if our voluntary War Savings Program is to succeed and should take precedence over all phases of our program until it is in hand.

Second of importance in our program are sections 5 and 6 under Group A. While it will naturally show that a great many of these persons will be brought into our plan simultaneously with our work in the above-mentioned groups, special facilities for handling these people should be established at this time. This can be accomplished by either an expansion of our Payroll Savings Committees or by the organization of new groups to concentrate on these firms now and take advantage of the increased activity of our overall campaign. Certainly, it is desirable to reach a very high percentage of all of these people through Payroll Savings Plans as they are now in operation or some slight modification of same, as against any other method of contact for two reasons: (1) The ability to keep them on this type of purchasing plan; (2) The physical problem of follow-up and actual issuance of the Bonds.

2. It is recommended that, in all States where the Pledge Campaign has not been started (except the State of New York) we abandon this activity as such; that we utilize the organizations that have been conceived for this work wherever practical to solicit all of the remaining 16,500,000 people (except in the armed forces) for signature to an agreement tantamount to a firm purchase of Bonds on a regular basis. In instances where these persons have bank accounts, this purchase agreement

could amount to an order on their bank for the purchase of "X" Bonds. In other instances, and it is believed that the higher percentage of them will not have bank accounts, it is suggested that these persons indicate the issuing agency that they prefer to use for the purchase of their Bonds. This would be any one of the following: banks, post offices, building and loan and savings and loan associations, investment banks, insurance companies, pay stations, etc. These orders would be signed in triplicate; the original going to the issuing agency so designated by the signed order, a copy remaining with the signer, and the third copy to the War Savings Staff. Arrangements would be made with the issuing agency to follow up the purchase agreement. In cases where this did not result in a consummation, a report would be received by the local War Savings office and a call-back would be made. Where the pledge organization as such would not be available or practical for this work or where the Fledge Campaign had been completed, our War Savings Committees would be extended for this solicitation. Such extension would provide for workers representative of these groups to take care of the actual contact. The farmers would be reached through the U. S. Department of Agriculture Local War Boards, A.A.A., Dairy Associations, etc.; professional groups through medical associations, teachers' unions, dental associations, etc.; self employed and small firms through retailer groups, commercial clubs, salesmen, delivery men, etc.; dividend groups through American Institute of Banking, etc.

Because of the urgency of this whole task, it is imperative that no step of the proposed national effort be eliminated.

As soon as all details for launching this program from the national point of view have been completed, it is recommended that regional meetings be held in the ten important industrial States where 65% of our payroll sales possibilities are to be found. So much effort has been put forth by our people in the field and so many outstanding pieces of promotion have supported our work to date that we must employ every conceivable plan to bring our field morale to an all-time high. Objectives of these regional conferences would be several:

1. To duplicate all of the national activities within each of the States, such as suggested in the radio campaign, to have governors, mayors and officials re-state the need and value of the voluntary savings program;
2. The use of every possible promotional aid;
3. The formation of new management-labor groups to aid in getting this job done in a short period of time.

All of the ammunition required to fire this job properly has been adequately covered by the heads of the several departments in their suggested support to the quota campaign.

One further suggestion is that the use of "at least 10% of salary" become synonymous with all of our publicity, advertising and promotion until it becomes an American by-word.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 1, 1942

TO Secretary Morgenthau
FROM Mr. Kuhn

Here are the first results of interviewing done for us in the Baltimore area this week under the direction of Dr. Likert of the Department of Agriculture.

1. Attitudes toward buying. Workers apparently have considerable latent enthusiasm for buying War Bonds. They understand its connection with the war effort and they do not regard the payroll-deduction plan, where it is working, as dangerously coercive. They seem ready to accept that amount of discipline to guide and stimulate their purchases.

On the other hand, this must be modified in the case of certain groups. Those who are less well paid (non-defense workers, white-collar employees in defense plants, etc.) have a feeling that the first obligation to buy lies with those who are better remunerated. The responses, "I'd take wage-increases in War Bonds," or "I would not mind buying if I felt I really had any extra money" are common. Baltimore seems to be, on the whole, a low-wage area; and one man in a position to see the general

situation told our interviewers that the biggest obstruction to the campaign in Baltimore is its unsatisfactory wage level.

Furthermore, there is hesitancy on the part of those who either do not understand that their bonds can be converted in case of personal financial emergency, or that they (in paying, say, ten per cent of each pay check into savings) would undergo greater hardship than workers with smaller families, fewer debts, or more security generally. The flat proportion urged for investment is seen as needing some flexibility or "exemptions."

The plans-in-operation that our interviewers have so far seen came from management's strong suggestion -- and it is interesting that this has not aroused antagonism from workers. Labor seems to feel that a payroll savings plan is not coercive -- is patriotic, and group-voluntary -- but it is opposed to a Government-enforced plan, which it feels would be dangerously coercive. Some workers see as an advantage of the existing plan the possible avoidance of later Government coercion.

2. Management's Attitudes. Among the number of managers who have not instituted the plan, we find several attitudes responsible. Quite important seems to be the case in which a labor union, known to be enthusiastic

for the plan, would gain prestige if the plan were undertaken, and in which management is unwilling to confer this prestige. An excuse from management often heard is that there are already many deductions from workers' pay check -- for social security, group insurances, repayment of personal loans, etc. -- and that one more sizeable deduction would break the camel's back. Frequent again is the attitude that the plan would have to be sold in terms of putting "extra" money into savings, and that would make workers think they needed higher wages and would make for demands and trouble.

Another attitude in the Baltimore area is that of general anti-New-Dealism. "They did a darned good job of trying to sell us the plan," said one manager, "but of course I didn't swallow it. It's just another New Deal idea, and I'm against the New Deal."

3. Successful and Unsuccessful Appeals. The two most effective appeals from labor's point of view are these:

- a) Buy bonds to win the war -- specifically, buy bonds to give the Government money to buy war materials -- ships, guns, tanks, planes.
- b) Invest your money in bonds, because there's a depression of fearful proportions coming after the war, and you'll then be glad of every cent you've saved.

Appeals based on the concept of inflation will probably fall flat with workers. They may occasionally use the term, but their context for it is confused and illogical -- as our studies show is true of the American public generally. Above all there is no appreciation of the purpose of "limiting ^{the} purchasing power" or any similar phrase. Some people even think that spending in this period is a public duty -- to keep business healthy! Money is regarded as something which (some) people have a good deal of, and which the Government needs to buy war materials; and the appeal must be close to that conception.

Workers complain that the campaign thus far strikes them as ineffective in two ways: (1) there has not been enough emphasis on what your money does when you invest it in bonds, and why it is absolutely crucial to invest, and (2) there has not been enough direct personal approach to workers -- down to the point of being talked to by Government people in meetings and rallies rather than through printed media.

4. Minor Obstructions. There is some evidence that even where there is no payroll-deduction plan, purchase of stamps and bonds could still be mechanically facilitated. Some workers complain that they find that the places where they were told that stamps and bonds

would be available really haven't got them, or the desired denominations. Management finds difficulties with the plan where there is a fairly high rate of labor turnover.

All these statements are naturally tentative. They are based on two or three days' interview with a few managers and with a couple of dozen workers. But they include generally those points which are either striking or pretty unanimously mentioned.



TREASURY DEPARTMENT

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WASHINGTON

~~OFFICE OF THE DIRECTOR~~
War Savings Staff

May 1, 1942

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Callahan

Attached herewith is additional
information about Alma Kitchell.

Vincent J. Callahan

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

ALMA KITCHELL

Alma Kitchell is now in her 15th year of radio broadcasting - with more than 5000 individual broadcasts to her credit.

For the past five years she has written, produced and delivered her own radio programs for women on NBC and the Blue Network. In these five years she has created and presented:

"Streamline Journal"
"Alma Kitchell's Brief Case"
"Pin Money Party"
"Meet Your Neighbor"

She is a well known concert singer, having started her radio career in this field. She sang on the National Broadcasting Company networks for the first ten years of her broadcasting work. Although she is now confining her work to programs of interest to women, she still does concert stage singing.

She lectures throughout New York State and the New England States. One lecture recital for which she is constantly in demand is known as "Alma Kitchell's Radio Scrapbook."

She has a home in Larchmont, N. Y., and another in Vermont. She is active in community affairs in both places.

At the present time she is, in addition to her regular lecture work, filling speaking engagements in Westchester County to acquaint clubwomen with the War Savings Bond and Stamp program.

Mrs. Kitchell is known as the woman with six jobs - wife, mother (she has two sons), writer, singer, lecturer, and broadcaster.

She is a native of Wisconsin and a graduate of the Cincinnati Conservatory of Music.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM TREASURY DEPARTMENT

BUREAU _____

CHG. APPROPRIATION Defense Savings -
Expenses of Loans

U. S. GOVERNMENT PRINTING OFFICE 10-1728

MAY 1, 1942

Mr. David Sarnoff,
Radio Corporation of America,
Radio City,
New York City.

THE TREASURY IS ANXIOUS TO ARRANGE SPECIAL COAST-TO-COAST BROADCAST EVENING OF MAY 17th WHEN MRS. ROOSEVELT SPONSORS "I AM AN AMERICAN DAY". WE SHOULD LIKE TO BUILD THIRTY-MINUTE PROGRAM AROUND THE NEW ROOSEVELT CANTATA FEATURING PAUL ROBESON AS SOLOIST WITH A GOOD SYMPHONY ORCHESTRA AND STOKOWSKI OR SOME OTHER EMINENT CONDUCTOR. MRS. ROOSEVELT HERSELF WOULD COME TO STUDIO FOR THIS BROADCAST AND MIGHT BE WILLING TO SPEAK ON PROGRAM. IT WILL BE AN IMMENSE SERVICE IF YOU CAN ARRANGE TO HAVE NBC PRESENT THIS PROGRAM. EVERETT OPIE OF OUR RADIO STAFF WILL COMMUNICATE WITH YOU SHORTLY TO DISCUSS DETAILS OF PROGRAM.

Thanks and best regards.

Henry Morgenthau, Jr.
Secretary of the Treasury.

FK/egk

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM TREASURY DEPARTMENT

BUREAU _____

CHG. APPROPRIATION Defense Savings -
Expenses of Loans

U. S. GOVERNMENT PRINTING OFFICE 10-1738

MAY 1, 1942

Mr. David Sarnoff,
Radio Corporation of America,
Radio City,
New York City.

THE TREASURY IS ANXIOUS TO ARRANGE SPECIAL COAST-TO-COAST BROADCAST EVENING OF MAY 17th WHEN MRS. ROOSEVELT SPONSORS "I AM AN AMERICAN DAY". WE SHOULD LIKE TO BUILD THIRTY-MINUTE PROGRAM AROUND THE NEW ROOSEVELT CANTATA FEATURING PAUL ROBESON AS SOLOIST WITH A GOOD SYMPHONY ORCHESTRA AND STOKOWSKI OR SOME OTHER EMINENT CONDUCTOR. MRS. ROOSEVELT HERSELF WOULD COME TO STUDIO FOR THIS BROADCAST AND MIGHT BE WILLING TO SPEAK ON PROGRAM. IT WILL BE AN IMMENSE SERVICE IF YOU CAN ARRANGE TO HAVE NBC PRESENT THIS PROGRAM. EVERETT OPIE OF OUR RADIO STAFF WILL COMMUNICATE WITH YOU SHORTLY TO DISCUSS DETAILS OF PROGRAM.

Thanks and best regards.

Henry Morgenthau, Jr.
Secretary of the Treasury.

FK/cgk

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1942.

TO Secretary Morgenthau
FROM Abbot L. Mills, Jr.

Subject: Report Re Issuing Agent Activities New York,
Philadelphia, Cleveland, and Chicago Federal
Reserve Banks.

Summary

All of the Federal Reserve Banks visited report that they are well situated to handle their present volume of bond issuance and also that they can expand their organizations to carry a considerably higher load should necessity arise. Generally speaking, the work of recruiting large corporations to become issuing agents appears to be making good progress. With the exception of Chicago, personal contact has been the customary approach in enlisting the cooperation of the larger corporations. Contact has been made, as a rule, through the public relations representatives of the various Federal Reserve Banks, supplemented by whatever support has been necessary from senior officers in the Banks. Personal contact is believed to be the most effective approach to the problem, and the process requires follow-up calls and gradual persuasion until corporate acceptance of the issuing agency function is obtained. In view of the somewhat prolonged approach necessary to enlist many important corporations, the work of obtaining their final agreement has proceeded in reality further than statistics reveal. Final agreement in many cases should be forthcoming shortly.

It is of course difficult to estimate, but with the effort to be placed behind greater participation in Payroll Savings Plans, it is reasonable to anticipate a substantial increase in the issuance of War Savings Bonds. This tendency is already apparent in Cleveland where the Federal Reserve Bank's April total in number of bond pieces issued has risen materially and is attributed to this cause. To keep pace with the increase predicted and to avoid any future possibility of congestion and delay in issuing bonds by the

Federal Reserve Banks it seems desirable that further energetic efforts be made to complete their enrollment of large corporations as issuing agents. As an example of the necessity for advance preparation by the Federal Reserve Banks, the possibility exists that some commercial banks that are now issuing bonds for corporation customers will find the work beyond their capacities to handle, in which event the Federal Reserve Banks would have to take over.

It should be pointed out that as corporations become issuing agents, Treasury and Federal Reserve Bank control over their issuing functions will be limited, and to the extent that it will be difficult to compel their prompt issuance of bonds if there should be any inclination among them to delay. Criticism arising from such delays will inevitably fall on the Treasury, which seems to be unavoidable. In any event, any inconvenience from this direction is believed to be outweighed by the larger advantage of having broad scale participation by larger corporations in the issuing agency function. To the extent that issuing delays may be anticipated more in small than in large corporations, it may become desirable to refrain from recruiting too many of the smaller corporations as issuing agents. Also, by concentrating on enlisting the larger corporations, and obtaining their participation, the Federal Reserve Banks should be able to relieve themselves of any future possibility of issuing congestion in their offices as they should then be in a position to comfortably handle such volume as may reach them from the smaller concerns in their districts. As an illustration, the early qualification as an issuing agent of the U. S. Steel Corporation and subsidiaries will relieve the Federal Reserve Bank of Cleveland of its largest account and permit it to comfortably take over a large volume of new accounts if they should eventuate. Similarly, the Federal Reserve Bank of Philadelphia will be assisted by the anticipated qualification of the Bethlehem Steel Company.

All things considered, the continued effort by the Federal Reserve Banks to recruit large corporations as issuing agents is to be desired and where their present efforts are divided between recruiting large and small corporations, concentration on the former would seem preferable.

Mr. Frank N. Isbey's unavoidable absence from Detroit has made it necessary to postpone contact with representatives of the Detroit motor industry, etc., until the middle of next week. The writer will plan to join Mr. Isbey Wednesday, May 6th, together with Mr. Alfred Sihler, Vice President of the Federal Reserve Bank of Chicago.

Abbot L. Mills, Jr.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA

May 1, 1942

Dear Henry:

I have gone through the material enclosed with your letter of April 25, 1942, regarding pay roll savings plans for Savings Bonds with a great deal of interest.

I have no particular suggestions or criticisms to make of the material, but I do wish you all success in your Savings Bonds campaign.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

Kee

May 1, 1942

FOLLOW-UP FOR THE SECRETARY:

Mr. Haas is to have ready for you today a report on the attached memorandum.

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April 28, 1942.

George Haas

Secretary Morgenthau

Please get in touch with Mr. Benjamin Namm in New York, Head of the Retailers Association, and ask him what effect on sales Leon Henderson's statement had this morning. My own guess is that people are going to stop buying, waiting for May 15th, but I'm interested, also Mr. McKeachie, chief buyer of the Atlantic & Pacific Tea Company - you can reach him through Clif Mack. I'd like to know not later than Friday morning what effect Henderson's statement has had on the buying habits of the people. Get it through these two organizations, and we'll know. Friday noon is the deadline for the answer.

May 1, 1942

TO: HAROLD N. GRAVES

SUBJECT: PROGRESS REPORT FROM WAR SAVINGS STAFF

QUOTA CAMPAIGN

Announcement of the May Quota figures resulted in front page news stories carried by the press associations nationally, in hundreds of radio broadcasts, local newspaper stories, special editorial cartoons, and editorials. Samples of the cartoons from leading papers are attached.

Telegrams received from State Administrators indicate an over-all enthusiastic reception to the setting of quota figures.

Indiana reported it expects to over-subscribe its May quota figure of \$10,925,800 before the first week of the campaign closes. Four Indiana counties have already over-subscribed their quotas. Indiana, Oregon and Connecticut have boasted each would be the first state to "go over the top".

A four page tabloid newspaper "The War Savings Staff News", copies attached, was distributed through State Administrators to all workers in the War Savings Campaign.

5/1/42
EWS/14

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PLEDGE CAMPAIGN

Twenty-two Pledge Campaigns were in progress during the week. Tabulation of the number and amount of pledges has not been completed, but general reports indicate that the campaigns were highly successful. In one county in Pennsylvania, incomplete returns indicated that 60,000 pledges for a total of \$3,000,000 were secured. In another county in the same state 100,000 pledges from a total population of 179,000 were expected.

PAYROLL SAVINGS

The Payroll War Savings Plan has now been installed by 67,546 companies throughout the nation. These concerns employ 20,155,995, or 66 per cent of the 30,400,000 employees in private business. An additional 1,425,576, or 32 per cent of the 4,400,000 employees of Federal, State and local governments now may purchase Bonds through the Payroll War Savings Plan.

More than 97 per cent of the 234,000 General Motors employees have subscribed to the plan of that corporation as a result of a drive which opened on April 16.

The Wage and Hour Division of the Department of Labor released an announcement on April 27 which stated that although employees may not waive their rights to the minimum wages or the

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PAYROLL SAVINGS (continued)

overtime compensation required under the Fair Labor Standards Act, they may accept part of the wages due them in cash, and the balance in War Bonds or Stamps. In addition, the Wage and Hour Division approved the Payroll War Savings Plan, even though the savings made for employees' accounts may reduce the cash wage below the minimum wage set by the Act. The release also states that where the Division has obtained restitution for employees of unpaid wages due under the Act, such payments may be in War Savings Bonds and Stamps, provided the employee voluntarily agrees to accept such payment.

RETAILERS

65,000 retail drug stores throughout the nation began a promotional sales drive for War Savings Stamps on May 1. Promotional display material, copies attached, was distributed to each drug store along with suggestions for window displays, etc. This campaign is built around a slotted card into which a quarter from change given to a customer may be inserted. The cards have printed on them the following message: "This quarter will buy twelve bullets. Prescription - use it to buy a 25¢ War Stamp here -- right now."

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RETAILERS (continued)

A "Retailers for Victory" meeting is scheduled for Monday, May 4, in Chicago, with an attendance of approximately 2,000 anticipated.

The Victory Display Committee of the National Association of Display Men is appropriating \$5,000 for the construction of model displays which will be exhibited at the Chicago retailers meeting. These displays will serve as models to interpret and suggest what can be done through adapting themes for use by retailers, in both large and small stores of every type, everywhere.

May has been designated as "Take Part of Your Change in War Savings Stamps Month".

Comment on this nation-wide retail effort to sell more War Savings Stamps was made by Mrs. Roosevelt in her "My Day" column on April 27. A copy of this column is attached.

The large window in the Sloane Building, headquarters of the War Savings Staff, has been decorated by Woodward and Lothrop Department Store and is built upon the theme of the "Take Part of Your Change in War Savings Stamps" campaign.

The first edition of the new "Retailers for Victory" magazine, published by a retail advisory committee as a contribution of the National Cash Register Company, is attached.

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RETAILERS (continued)

This publication will be printed regularly and will be distributed to a selected retail list and to all State Administrators on the first and fifteenth of every month. Publication contains news of retailers' activities and suggestions for increased Bond and Stamp sales.

SPECIAL

The War Savings Program emblem - "Buy United States War Savings Bonds and Stamps" - is printed in the upper left-hand corner of every gasoline rationing card which will be issued by the Office of Price Administration during the latter part of May. A sample reprint of one of the cards is attached.

NEWSPAPER CARRIER SALES

A total of 251,017,899 ten-cent War Savings Stamps or their equivalent in Bonds or Stamps of larger denominations has been sold by newspaper carriers of 873 newspapers. Sales during the week of April 23 - 30 total 12,118,876 ten-cent Stamps.

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PRESS

Announcement of the Quota System was front page news in virtually all newspapers on Thursday afternoon, April 30, and on Friday morning, May 1. In addition to carrying straight news stories, hundreds of papers carried the maps of their states with the figures for each county written in; editorials and editorial cartoons.

Approximately 25 of the nation's leading cartoonists drew special cartoons around the Quota Campaign as a result of a personal contact appeal made by Ed Reed, chairman of our cartoonists' committee. More than a dozen originals of these drawings have already been forwarded to the War Savings Staff to be reissued by the Press Section to all daily and weekly newspapers.

A survey of some of the nation's leading daily papers for April 30 and May 1, also the labor press and the foreign language press for the last week, shows the use made of the quota maps, one column boxes, cartoons, news stories and the Secretary's letter, sent out by the Press Section, as well as some of the leading editorials and original cartoons. Tear-sheet booklets from these newspapers are attached.

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RELIGIOUS PRESS

War Bond editorials of Chief of Chaplains W. R. Arnold, U. S. Army, Catholic; Charles E. Diehl, Moderator of the General Assembly of the Presbyterian Church in the United States; and Rabbi Solomon Goldman, Chicago, which were prepared at the request of the War Savings Staff, appeared in various religious weeklies last week.

During April these publications devoted front covers to the War Savings Program; The Jewish Criterion, Pittsburgh; The Pulpit Digest, Great Neck, New York - a publication going to 15,000 protestant ministers; and the Catholic Forester, Chicago.

Special War Bond articles appeared in the following: Pulpit Digest, Church Management, Cleveland; Extension Magazine, Chicago; St. Joseph Magazine, St. Benedict, Oregon; the Commonweal, New York City; and B'nai B'rith News Service.

Our Minute Man religious pictorial appeared in many Catholic and Protestant weeklies and in nearly every Jewish weekly of the country.

Pulpit Digest, which publishes sermons and circulates to 15,000 protestant preachers, has volunteered to carry a July 4th sermon in its June issue. The editors are asking ministers to compete in a sermon contest, "The Place of the Church in Winning the War -- And The Peace". Prizes are War Bonds.

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MAGAZINES - SPECIAL PUBLICATIONS

Managers of the International News Service and the United Press advise that our articles by leading American authors are scheduled for regular release over their wires shortly. In addition to this service, numerous other articles by prominent writers will be syndicated to newspapers from the Press Section. New contributors of articles last week were Harold W. Dodd, President of Princeton University; J. C. Furnas and Ogden Nash.

Walter G. Douglas, chairman of the Music Publishers' Protective Association, advises that 150 song publishers will use War Bond seals and emblems on all sheet music published.

Fred Parks, Secretary of the National Steeplechase and Hunt Association, has supplied us with a complete list of American race tracks and hunt race meetings, and a letter has been sent to all race officials requesting the use of War Bond slogans on every race program to be printed throughout the duration.

Attached are page proofs from the Curtis Publishing Company's children's magazine "Jack and Jill", showing features devoted entirely to the War Bonds and War Stamps theme.

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BUSINESS PUBLICATIONS

Returns to date show that 360 business publications have requested our half-page ads "Target for Tonight" and "The Axis Wants Your Business". New ads in this series are now being prepared featuring the change of name to War Bonds and the inclusion of the Ten Per Cent Payroll Plan.

We have also received in the first week since the advertisement "Next to the Stars and Stripes" was released, reply cards from 150 publications advising us that they will run the ad.

COMPANY PUBLICATIONS

Robert Stokes, Editor of "Telephone Topics" for the New England Telephone and Telegraph Company, has been named for membership on our house publication committee, replacing Merrick Jackson. Mr. Jackson has resigned to accept a new assignment with the War Department, as reported last week, and Mr. Alexander assumes Mr. Jackson's chairmanship; Mr. Stokes now becoming the third committee member. Mr. Stokes has been most active in promoting War Bonds and Stamps in his publication and is now conducting a drive that has raised employee participation from 23 per cent to 83 per cent. Score sheet as used in his publication is attached.

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RALLIES

Dorothy Lamour, picture star who is serving the War Savings Program as "Uncle Sam's No. 1 Minute Maid", made a personal appearance at a rally in the Burbank, California plant of Lockheed-Vega before the employees' "Buck-of-the-month-for-Victory-Club".

Negroes of Richmond, Virginia invested more than \$400,000 in War Bonds at a rally there April 26. As part of the promotion for the rally, a parade was held featuring negro troops, a band from Camp Lee, school children, fraternal organizations, war workers and trade groups.

The "Ship Ahoy" M*G-M starlets, Jetsy Parker and Dorothy Schoemer, sold more than \$56,000 in War Bonds and \$7,000 in War Stamps to guests attending the Victory Scoop Dinner of the St. Paul, Minneapolis newspaper guild.

COMMUNITY SING

The Lucy Monroe Community Sing in Jackson, Mississippi on April 28 climaxed that city's "Extra Million for MacArthur" campaign.

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EDUCATION

A playlet entitled "You Can Count on Us" is being distributed through State Administrators to all high schools, junior high schools and private schools.

An illustrated pamphlet, "Stamps - How They Can Help Uncle Sam", is being distributed to elementary schools through State Administrators. The pamphlet explains for elementary school children what stamps are and what they do.

Ten million special pledge cards for school children of the nation to sign before Summer vacation begins were mailed to State Administrators on May 1 for distribution to schools.

Analysis of Exposure to Payroll Savings Plans
April 25, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Large railroads.....	158	167	95
(2) Other firms with 500 employees or more.....	5,890	7,334	80
(3) Other firms with 100 to 499 employees.....	<u>15,727</u>	<u>26,879</u>	<u>59</u>
(4) Subtotal - large firms.....	21,775	34,380	63
(5) Firms with less than 100 employees.....	<u>45,771</u>	*	*
(6) Total business organizations.....	67,546	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>67,546</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Large railroads.....	1,273,260	*	*
(2) Other firms with 500 employees or more.....	14,417,763	*	*
(3) Other firms with 100 to 499 employees.....	<u>3,385,905</u>	*	*
(4) Subtotal - large firms.....	19,076,928	*	*
(5) Firms with less than 100 employees.....	<u>1,079,067</u>	*	*
(6) Total business organizations.....	20,155,995	30,400,000 ^{1/}	66
II. Governmental organizations			
(1) Federal Government.....	397,981	1,700,000 ^{1/}	23
(2) State and local governments.....	<u>1,027,595</u>	<u>2,700,000</u>	<u>38</u>
(3) Total governmental organizations.....	<u>1,425,576</u>	<u>4,400,000</u>	<u>32</u>
III. Grand total.....	<u>21,581,571</u>	<u>34,800,000 ^{1/}</u>	<u>62</u>

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

May 1, 1942

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

* Data not available.

MEMORANDUM FOR THE SECRETARY.

May 1, 1942.

Mail Report

Of course, the Secretary's statements in regard to house to house canvassing, and 10% deduction for Bond purchases dominated the comments in the "fan mail" this past week.

There were 4 exceedingly pleasant letters praising the radio program of April 23, and a great many which mentioned it favorably, but briefly, and went on to other matters.

Of 21 comments on the 10% deduction for Bond purchases, 11 were favorable, 10 unfavorable.

This week, the comments in favor of the Sales Tax outnumbered those against it by 5 to 3.

There were a number of abusive letters, mostly anonymous, and a number violently attacking Labor and urging the taxation of Unions.

The recent newspaper statements in regard to a ceiling on wages were mentioned in 20 letters. One from the Hollywood Rogue, Sportswear Company of California, was favorable. All the others were unfavorable, and most of them came from organized labor in the form of resolutions or official protests.

There were 23 similar copies of resolutions from federated women's clubs of West Virginia. These all urged drastic legislation to withhold inflation, and pledged support of measures which will reduce the disparity between present buying power and supply of consumer goods.

He Forbush

- 1 -

General Comments on Present Emergency

John W. Gurley, Clovis, N.M. * * * Enclosed I am sending a photostatic copy of a draft, which is now in the mail, for \$1,518.72 to the United States Treasury for the A.T. & S.F. Railroad shops' employees of this city. These employees have voluntarily contributed this amount by each donating one day's wages to aid the U. S. war effort. * * * Mr. Wilson and I, as well as others connected with the contribution plan, believe that with a little pushing, the idea can be made to blanket the nation to such an extent that many millions of dollars can be promptly gathered in for the all out war effort. The idea should appeal not only to wage earners, but to all income earners without in any way disturbing the sale of War Bonds. * * *

Thos. W. Osborne, Chairman, North Hollywood Home Owners, North Hollywood, Calif. We home-owners of this community seek your support against any freeze-order or ceiling on wages and small, office-force salaries. * * * This class is 100% behind the Government's fight to prevent any "increase in the cost of living". A freeze-order affecting his present small salary will decrease his right to a living. He asks nothing more than an opportunity of maintaining the level. We sincerely and respectfully solicit your interest and support of our opposition to any ceiling on present low-bracket salaries and wages among office workers.

Geo. M. Craig, President, Merchants National Bank, Port Arthur, Texas. Enclosed you will find a clipping from The American Banker of the 20th. It is not only the New York Banks which are in this shape, but all banks. (Stock below "lowest low".) If Government competition continues, there may be another bank holiday as was declared by the President in 1933, and some more purchases of preferred stock of banks by R.F.C. or your Department. Bank statements of April 4th, that I have seen, show comparatively very small earnings.

Philip J. Bernstein, Vice President, National Silver Co., N.Y.C. (Telegram) Pending preparation by Treasury Dept. of proposed legislation to cancel present Silver Purchase Act, we urge that you find some legal means for lending to arts and industries part of the silver stocks now being held by the Govt. Govt. silver hoarding is contributing to present panic in silver market. Holding of these large silver stocks by Govt. does not contribute to war effort in any way and prevents the functioning of manufacturers and industries which now afford livelihood to thousands of men and women who are not equipped for more essential defense jobs. It is senseless to deprive such persons of their livelihood and to close such industries while a surplus amount of material is available to keep these industries and employees at work. * * *

Honorable Frank Knox. * * * There is enclosed herewith Govt. check in the amount of \$100 which has been forwarded to the Navy Dept. by Kwan Chan Au, civilian machinist, Navy Yard, Pearl Harbor, T.H., the proceeds of which he requests be donated to the crew of the plane that dropped the first bomb on Japan. * * *

Honorable Frank Knox. * * * There is transmitted herewith check of Oscar Modes, 77 Middle St., Portland, Maine, dated April 22, 1942, for the sum of \$25, which has been donated by Mr. Modes "for naval defense for Pearl Harbor". * * *

Clarence Olson, The Sheridan Hotel, Minneapolis, Minn. I talk to farmers daily and have wondered what is being done to bring him into the tax program. He is one of the greatest beneficiaries of this war. The average farmer with 160 acres receives about \$250 benefit check. Of this he returns about \$50 in income taxes, leaving him a net profit of \$200 from his subsidy. No payroll tax will catch him. Out here the farmer gets \$14.25 for hogs, \$13.00 for cattle, \$2.40 for flax, 70¢ for corn, (yielding 70-80 bushels an acre), \$1.05 for wheat; 300 hens bring him \$100 a month. In my many years of contact with the farmer, I have never seen so much big money in circulation as at the present time.

Favorable Comments on Bonds

John A. Ross, Detroit, Mich. It was with a tremendous amount of pleasure that I read your telegram to the Detroit News newsboys and carriers. * * * Only a man with a great love of human nature on his heart and deep spiritual understanding could write such a splendid telegram, which brought so much happiness to our boys. It was sincere, honest praise at its best. * * * To them you are just as swell a guy as Babe Ruth. I am sending you a baseball - I hope you can use it. * * *

Edward P. Chapman, Findlay, Ill. I am sending you a little slogan of my own creation, which I trust may be used to increase the sale of War Bonds. In my opinion it is a self-evident truth, and needs no explanation: BONDS OR BONDAGE. * * * We, the people of the United States, must take our choice of one or the other of the following: U.S. BONDS OR AXIS BONDAGE.

Jerome E. Klein, N.Y.C. My wife and I feel that you're being too easy on people in asking them to invest only 10% in their Government. That's assuming that the American people want to keep on living "as usual". This is war, and I'm sure that we're all willing to sacrifice our "living as usual" in order to help win the war. What's more, we stand to gain by investing in such good Government Bonds. * * * That'll leave us enough for insurance, rent, and other normal expenses. I'll have to cut down a number of our entertainment expenses, and cut out a number of frills and luxuries, but...this is war. I won't be able to go on vacation this year....I wouldn't take a vacation if it were offered, and my wife won't go far, or to an expensive place. We're making the neighborhood movie do us for the duration, with the exception of her birthday....we're splurging then. We're finding that less expensive cuts of meat can save a lot in our food budget; I'm bringing the paper home instead of leaving it at the office....and there are hundreds of other ways in which we are saving.... some of them we just drifted into unconsciously. * * *

Edith M. Kempthorne, N.Y.C. I am a naturalized New Zealander. Having one brother who has already lost his only son on the sands of Libya, a sister with one RAF son crashed on the Mediterranean, and a second a prisoner in Germany, and two more nephews fighting in Egypt, it seemed at first as if all I had must go to my home folks or to help Britain in her need. However, I know the Pacific and its vastness. I know what it means to my people to have those fine U. S. boys to share with them the dangers of the Pacific. In gratitude for this help, I invested today 10% of this year's salary. I realized this country should come first. What I wish to give to other countries must be in addition, and no sacrifice is too great. I hope all other naturalized citizens will feel the same.

M. M. Kelly, N.Y.C. Although we do not have the bookkeeping facilities for handling investments in War Bonds as a unit, I can inform you that the nine members of the staff of the American Welding Society are pledging themselves to invest 10% of their salaries in War Savings Stamps and War Bonds.

Miss Ray Abrams, Principal, Joseph A. Maybin School for Graduates, New Orleans, La. * * * Throughout the country, school teachers will soon be on vacation. From June 1 until September 1, an army of intelligent patriotic men and women will be at leisure. In this group, there are many who would willingly give their time, energy, and ability toward furthering our Nation's cause. Could you not conscript the services of this group in a summer campaign to sell United States Bonds? Teachers from all communities might be authorized to address club and church meetings, give radio talks, meet key individuals, and tap all possible sources of investment revenue. There is no group of people in the country with a stronger sense of loyalty to Government than teachers. There is no group with a better understanding of the need for retaining the Four Freedoms than teachers. We, who have taught generations of youth, realize the importance of the continuance of the Democratic way of life. By our years of service to the youth of the nation, we have earned the respect of the country.

Unfavorable Comments on Bonds

Mrs. Eric G. De Flon, Chadron, Neb. * * * I live in a town of 4,000. Stamps and Bonds can be procured only at the Post Office. To reach it, one must climb about 8 stone steps and push through a couple of heavy double doors. Whenever I go out, I have to take my baby with me in his carriage, and I cannot navigate the stairs and the doors with the carriage. Whenever I have a couple of quarters left over from my shopping, and would be willing to put them into Stamps, the stairs stymie me, and I go home with the quarters and eventually spend them on something else. Why not have the mail carrier sell Bonds and Stamps? He goes past every door, works shorter hours with better pay than the average person, and no doubt would be willing to make this contribution of extra work and time for his country. * * *

Ed Carmical, Houston, Texas. * * * Most people would continue on the salary saving plan, but would like some part in an offensive or victory loan campaign. The people keenly feel the lack of parades and patriotic rallies which were so much a part of the last war. We want patriotism, we want to see our public muscles flexed, we can use the old time parade to promote a victory loan. We don't need the soldiers to take time off from necessary training, but we could use the newer men who could be spared to take part in such demonstrations. Please believe me when I tell you that Americans are not ashamed of their patriotism, but rather are willing and ready to engage in an all-out-victory loan drive whether it is for twelve billion or twenty-four billion, the amount estimated for 1943. * * *

S. F. Hopkins, N.Y.C. I wonder if you know why you are not realizing the amount on the sale of Defense Stamps and Bonds that you had hoped to realize. I can tell you! It is because while American people place winning this war before everything else, their sense of justice is utterly scandalized at the thought of sacrificing to the utmost when the New Deal Govt. is squandering the very money they are paying in, on unnecessary bureaus and New Deal propaganda. * * * Until we have honest dealings at the source of

our Government, there is going to be resentment and confusion in the ranks. The heart of the people of our country is not in the movement to raise money to win this war in the face of the schemes and methods that are being carried out by the Administration.

H. Albert Young, Wilmington, Delaware. In June of this year I will be entitled to a full year's interest payment on the United States Savings Bond - Defense Series G, in the sum of \$1,000.00, and on account of which I have not received any interest payment to date. I mailed you the application and affidavit in reference to my failure to receive the first semi-annual interest payment. This matter was first brought to your attention on February 17, 1942. I desire to purchase more Bonds of this type, but I must say that your delay in forwarding the interest payment to me is certainly not encouraging me to do so.

Herbert Payne, N.Y.C. On behalf of the members of the Textile Workers Union of America employed in the plants of the Bemis Bag Company in all parts of the country, I should like to call once more to your attention the position of that company in opposition to the use of the payroll allotment plan for the purchase of War Bonds and Stamps. We first raised the question with the company for its Indianapolis plant more than four months ago, and met with outright refusal. * * * In each instance after the request had been refused, the national office of the union has notified the Treasury Dept. In some cases local representatives of the Defense Savings have been present at the time of the refusal. * * * During the past few months the labor movement has been accused of all kinds of crimes against the prosecution of the war. The press has been full of misleading information, tending to discredit labor. The Bemis case is an evidence of the real patriotism of American workers. Unfortunately, it also represents an all-too-common attitude taken by textile manufacturers who have been continuing their reactionary "business as usual" policy in the face of increasing national crisis. * * * The situation has reached such a point that it has become destructive of morale among the workers in the several mills. The company is working on war orders. In order to assist the company to meet deadlines for orders, some of the workers have

been working as much as 16 hours daily, and there are even instances of workers who have worked 24 hours straight through, in order to keep war production going. You can easily see the reaction of these workers to the company's refusal to aid the war effort by installing the payroll allotment plan. In view of the serious need of the nation for war funds, and in view of the flagrant attitude taken by the Bemis Company, I should like to urge that the Treasury Dept. use its every effort to correct this situation.

Larry T. Gavin, Minneapolis, Minn. * * * I note that you are now in favor of voluntary War Bond buying. Honestly, Mr. Morgenthau, I cannot for a minute understand how a man in your position can really think that the voluntary purchasing of Government Bonds will do half the job that is necessary. * * * I also note you are going to have a door to door campaign and undoubtedly you will come pretty close to having 100% subscription, but I am satisfied that the percentage of salary invested will be far below even the 10% which is admitted necessary. * * * We put up traffic signals at corners to protect the pedestrian in crossing the street, but they insist on crossing against the red light, and you still think they will voluntarily subscribe to Bonds. Verily, you are a trusting soul! This is a time for stern realities and it seems to me that our Secretary of the Treasury should be a little more realistic. How can you expect the people of the country to realize that this is an all-out war when apparently you don't?

J. W. Hoopes, Vice President, Mercantile National Bank at Dallas. I have been watching with a great deal of interest the campaign for the sale of Defense Bonds. I was executive manager of the Eleventh Federal Reserve District during the first four campaigns. Notwithstanding the fact that the greater portion of the District was undergoing one of the worse droughts in history, subscriptions were received, in all of these campaigns, in excess of the quota assigned the district. * * * The experience I got in this work leads me to believe that your sales are never going to be satisfactory under present methods. You have to get

the people aroused and get them to believing that if they will "lick the stamps, the boys will lick the Japs", except their purchases, of course, will have to be in larger amounts than stamps. * * * This "please-pussy-foot" campaign will never get anywhere, I am certain of that. There is a world of people who must be made to buy bonds. The public opinion has to be aroused to such a pitch that even the misers are afraid not to do their share. * * *

John L. Meyer, Chicago, Ill. My wife and I are "elderly people". We have four children, and four grandchildren. We wish to remember their birthdays, wedding anniversaries and during the holidays by sending them War Bonds. We cannot afford large ones, but believe we can manage \$25 expiration ones. It figures out that we would be buying one per month through a year, although the anniversaries are not "one per month". * * * Upon my request you sent me forms on "regular purchases". However, we cannot use them. In our case there would be eight names of owners and eight co-owners, in remembering our children and grandchildren, not to mention ourselves. I wonder if many others are thinking also of using War Bonds for birthday gifts, wedding anniversary remembrances, etc. * * * But, the use of this idea would necessitate a new kind of "regular purchase plan" form. No doubt your office can devise one to fit the case. I may add that I am not situated so that I can send one check for all these Bonds we want to give in our family, at one time. * * *

Alfred I. Warren, N.Y.C. In view of the current newspaper reports, may I take the liberty to inquire what constitutional clause authorizes you to dictate to me what percentage I shall save of my income, or when or how I shall invest that saving? I am struggling to decently support a family of seven and am investing my savings in the education of my children with the view of preparing them to be useful citizens to their Country, and I am just making the grade in my attempts to do so, together with meeting the payments of my taxes. The Government certainly has no moral, much less legal right to force me to substitute that policy for one dictated by them. I don't suppose any such attempt would be made and the fact that it would not be made should be stated to the public.

Mrs. Ben Neiwendorp, Sanborn, Iowa. We are assuming you are interested in not only the sale of offense bonds, but in the kind of pressure applied and the repercussions to the method. A sort of "Court of Appraisal" has been set up here. One for each rural and town community. This court consists of those who would ordinarily be called "influential citizens". Incidentally, not one served in the last World War. These persons have stipulated the amount of U. S. Bonds each head of the house should buy. During World War I the same plan was used. The result was threatened and actual mob action. Then, as now, the fear psychosis created got results. People who did not have the money to buy the required amount, borrowed at the bank to do so. Thus they created debts at 8% that in the contracting economy that soon followed, made many of them paupers. * * * Each man on the "Court of Appraisal" is a BIG farmer -- that is, he uses modern equipment, which is run, at times, both night and day. On the seat of this equipment is a man paid \$45 to \$55 per month. He is asked to pledge \$5 each month toward a Bond. If his employer asks it, can he refuse? * * * If you must resort to selling Bonds in this fashion, make it nation-wide. We would gladly submit to a Federal law, confiscating all earning above a bare living, with no interest, no return of principal, as a war measure. But as it is, please call off these lip-patriots. I can see this policy producing just the kind of moral stamina that would delight Corporal Schicklegrubber. My husband enlisted the day after war was declared in 1917, his brother and my brother a few days later. It is nauseating to have those who became sleek sucking eggs then, to determine the price of our patriotism now.

Geo. J. Carpenter, Jacksonville, Ill. (Copy of letter addressed to the President.) * * * Saturday afternoon I went to the local Post Office, Jacksonville, Ill., to purchase some Stamps and to mail some letters. I am new here, having recently moved from Calif. to operate my farm and orchard, so I did not know that the Post Office was closed to patrons on Sat. afternoon. While I was making my first survey of the closed windows, a farmer came in expecting to buy a Bond. He did not, and the only thing lacking was the opportunity. Yes, banks are closed here on Sat. afternoons also. * * *

Favorable Comments on Taxation

R. E. Lucas, President, Missouri Store Company, Columbia. I have just read a statement of Randolph Paul, tax adviser to the Secretary of the Treasury, before the House Ways and Means Committee, and I was particularly interested in his paragraph 7 on "Additional Examples of Special Privileges", paragraph A, "Tax Exempt Corporations Engaged in Business." I must admire Mr. Paul for his frank statements as here is a source of revenue that has never been taxed but should be, and I hope this recommendation is given serious consideration.

William M. Mill, Thomas Smith Co., (Punch Press Products), Worcester, Mass. * * * At present it would be possible for us to send you \$5,000 on our next tax installment. However, instead of that, we bought tax bills, whereas we could have saved the cost of the tax bills and given you the money without any interest. If the system could be waived when people wanted to pay in advance, and if it did not require too much bookkeeping, I think you could get quite a little money in ahead of time. If this suggestion meets with your approval, we will try to pay our taxes sooner than the regular time.

Unfavorable Comments on Taxation

Daniel Nugent, Santa Barbara, Calif. In re your campaign to sell more War Bonds. As the owner of sound common stocks, how can you expect me and several millions like me to buy War Bonds if you confiscate our savings? * * * I don't want or expect to make money out of the war, as you are permitting some individual businessmen, some farmers, and some wage earners to do. But when you take such a share of corporate profits that dividends must be reduced far below their pre-war level, you are putting a capital levy on stockholders. Tragically enough, this capital levy does not transfer our capital to the Treasury, but simply causes it to vanish into thin air. * * * Before it is too late, Mr. Morgenthau, please consider carefully the methods England has used in taxing corporate profits. Certainly England, in its war taxation, cannot be accused of being tender or gentle with wealth. It may well be that the tax experts of England are saner and juster and wiser than is Mr. Randolph Paul.

Letters from Senators, Congressmen, and others who received the copies of War Bond letters and leaflets, are in the main, highly commendatory. These have been abstracted as separate from the usual bond mail, and both favorable and unfavorable quotations follow:

Favorable Comments

Harry L. Haines, Pennsylvania. I desire to compliment you for making this contribution at a time when it is so essential to our own existence. I am rather confident that posterity will approve this effort on your part more than the present generation. To urge men and women to save is most wise indeed, and it is more necessary in this day to those of us who cannot bear arms, permitting us to make our contribution in the War effort so as to bring victory to our arms.

William M. Colmer, Mississippi. I think the defense savings program is being handled very effectively and assure you of my cooperation in putting it over.

Thomas A. Jenkins, Ohio. I want you to know that I support your efforts most loyally and will be glad to do anything I can to help out with any reasonable program that you might adopt. We must win the war and this is a splendid way for the people to help.

J. Edgar Chenoweth, Colorado. I like this literature very much, and feel certain it will accomplish results. I am sure that the voluntary method of raising money through the sale of defense stamps and bonds is preferable to any compulsory plan.

Senator Arthur Capper, Washington, D.C. * * * I thank you for bringing this campaign to my attention, and I give it my full endorsement. If I can be of any help to you by press or radio, or by personal appearance, please let me know at any time. I shall be glad to serve in any way. I was greatly interested in the detailed account of the

Pay-roll Savings Bond Program of the General Electric Co. I sincerely hope its success will be duplicated and improved upon many times throughout the country. You have my best wishes in the matter.

J. J. McEntee, Director, Civilian Conservation Corps.
* * * In connection with this and similar campaigns--both with large and small organizations--one thought which may be of interest to you occurs to me. That thought is this-- Though requiring considerable skill, it is relatively easy to generate mass enthusiasm during a campaign similar to the one executed by General Electric. In saying this, I do not under-rate the effort put forth or the initial results. However, I believe that an even greater job remains to be done on follow-up campaigns because it is inevitable that initial enthusiasm will, in some measure, die out and that initial sales, in the normal course of events, will tend to decrease with the passage of time. Such a process is normal unless counteracted by repeated skillful follow-up campaigns. Only because you have specifically asked for my suggestions do I presume to suggest that you may desire to give immediate attention to this matter of follow-up campaigns. In making this suggestion I also recognize that action may already have been taken on it, but I think there is general agreement that the job of maintaining enthusiasm and achieving favorable sales results is even more difficult than the job of launching an enthusiastic campaign.

Hon. Emanuel Celler, House of Representatives. Your suggestion is a most excellent one. It has the decided merit of being practicable, and cannot fail, in my opinion, to meet with the approval of all interested in furthering our war effort. This method of borrowing from the people directly can be put into practice without setting into motion any cumbersome machinery, making effortless the purchase of Bonds, and eliminating a much used excuse of delinquent purchasing.

L. S. Rowe, Director General, Pan American Union. I want to thank you for your kindness in sending to me a copy of the admirable circular letter. * * * You have set forth the situation with such convincing clearness that I can add nothing thereto. I feel certain that you will have a most enthusiastic response. With renewed felicitations on this splendid campaign.

Unfavorable Comments

Frederick Gigax, Editor, East Lansing-Meridian News, East Lansing, Mich. Your letter advising us regarding the intensified War Bond sales campaign was received the other day, and I was struck by the use of the word MUST in two separate paragraphs of that letter. Judging by the newspapers I see, the command must need not be used to get them to support the Bond sales campaign. They have all done this in every issue since the sales started. * * * Due to the lessening of advertising at this time, many newspapers will be compelled to suspend. If you must have the newspapers' support to put over a Bond sales drive now, what will you do when many of them have been forced to suspend?

Clarence M. Fincke, President, The Greenwich Savings Bank, N.Y.C. * * * While I agree with you that it is fitting and perhaps possible that a payroll deduction of ten per cent might be collected from those who are benefitting greatly from increased pay due to the Defense effort, it certainly would not be equitable to expect any such percentage to be taken from the many thousands whose earnings have not increased, but on the contrary, because of it, are struggling under increased costs of living, and at the same time are called upon to pay income taxes in many cases double or triple what they have ever paid. I think you need have no fear of inflation from these. Also, I cannot help being a bit fearful of what might happen at the close of the war with the Government facing the demand obligations of so many billions in the hands of the public. May not this be a real problem?

Hon. John Taber, Congressman, 36th Dist. New York. I can see no objection to the circular. However, I believe I could get one up that would be much more effective, and this is the line that I would proceed on. I would go over the Treasury Department set-up with the idea of weeding out all unnecessary help in connection with the bond program and the income tax program; get some economist in who really understood some of the effects of some of these taxes; start in and get rid of the payroll tax designed to pile up a surplus on unemployment insurance, for the duration, because it will not be needed; substitute a sales tax which

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would be a burden on each group of our people in place of the unemployment tax; get rid of the hurdy-gurdies and frills. Then I would make a straight forward statement to the bond purchasers, telling them just what I had done and what I had recommended; that I had tried to eliminate every foolish expenditure and anti-defense activity out of the Treasury; and that I wanted and needed their cooperation; that I did not like the idea of forced loans and did not want to suggest them to the Congress or the President, but that it was absolutely necessary that we raise a certain amount of money. I think you would find the response to this suggestion enormous. You would find that it would be way beyond what will come from the way we have been operating.

Senator D. Worth Clark. * * * I think you have done a fine job. However, in this regard I am taking the liberty of enclosing a letter from a friend of mine in Idaho who is interested in the bond sales program. What he says may be the general reaction of the people in this vicinity. * * * (Comments from letter addressed to Senator Clark signed by C. L. Billings, Vice President, Potlatch Forests, Inc., Lewiston, Idaho.) "It seems to me that the posters put out for various purposes in this War, fail by an enormous margin to do justice to our War effort. Recruiting posters are generally good, but those intended for the influencing of civilian opinion and attitude, are lamentably weak. In Lewiston we have had nothing to look at except a picture of a statue of a man with a gun and a plow, a dismembered hand inserting a coin in a slot cut on the face of an outline map of the United States, two dismembered hands clasped together, and that is all. * * * Yesterday when I signed a pledge for the purchase of War Bonds, I was handed a little blue and white slip which seemed to me to reach nearly to the depth of ineffectiveness. * * * The people do not understand why the Government thinks it is necessary to feature savings and thrift and soft-pedal the realities of War in the advertising and sale of War Bonds. Why can't something be done about this? When I think of the thrilling, inspiring, rugged, he-man posters of the other War, it makes me wonder what kind of men are handling our War Bond advertising. * * *

May 1, 1942.

My dear Senators:

I understand your Subcommittee has under consideration the bill providing appropriations for the Farm Security Administration's program during the fiscal year 1943, and that the report of the Joint Committee on Reduction of Non-essential Federal Expenditures, of which I am a member, has been called to the Subcommittee's attention. In this connection I would like to state that last winter I submitted several recommendations to the Joint Committee on Reduction of Non-essential Federal Expenditures and among such recommendations I urged that we should make drastic cuts in our Agricultural expenditures.

In making this recommendation I stated that I did not refer to the bulk of activities undertaken by the Farm Security Administration and that I believed there should be no reduction in our help of the share-croppers and farm tenants who are in urgent and continuing need of economic rehabilitation. It was my feeling then, and it is still my feeling, that substantial reductions could be made in our Agricultural expenditures without striking out those parts of the Agricultural program which are helping the undernourished and which are doing so much for the share-croppers, farm tenants and other persons who can only be rehabilitated with the continuing assistance of the Government through the activities which are being carried on by the Farm Security Administration.

Furthermore, I feel that the Farm Security Administration's program has now assumed a new importance because of the war and our anti-inflation efforts, in that it is assisting a sizeable group of our low-income farming population to expand agricultural production and thereby help increase the food supply and avoid inflated prices.

I would appreciate it, if the occasion arises, that you would make my position clear.

Very truly yours,

(Signed) H. HOBBSMITH, JR.
Secretary of the Treasury.

Honorable Richard S. Russell,
Chairman, Agricultural Subcommittee,
Appropriations Committee,
United States Senate,
Washington, D. C.
CC to Hon. O. H. Baldwin, Administrator, Farm Security Administration.

WHD:mbs 5-1-42

Appointment Request ⁸⁹

C. P. Baldwin, Farm Security
Administrator

Today

To ask you to write a letter
to Senator Russell outlining
your stand on cutting the
Farm Security Approp. below
the budget estimate

Baldwin says Sen. Byrd
indicates you favor such a
cut. He wants to prove you
are against this reduction
when he appears before the
Committee on Saturday to
defend his Bureau against
Senator Byrd's proposal
Told Bell who said he would
take up with you.

From: MR. FITZGERALD

May 1, 1942.

Dear Dr. Burgess

For the Secretary I am acknowledging the report compiled by the Economic Policy Commission of the American Bankers Association, entitled, "Treasury War Borrowing and the Banks", which you were so good as to send him with your card.

Thank you for thinking of Mr. Hargreaves in this connection. I am sure he will go through the report with a great deal of interest.

Sincerely yours,

HS (Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Dr. W. Randolph Burgess,
Vice Chairman of the Board,
The National City Bank of New York,
New York, New York.

Have not seen book.

GEF/dbs

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W. RANDOLPH BURGESS

VICE CHAIRMAN
THE NATIONAL CITY BANK
OF NEW YORK

has been
added 92

AS THIS REPORT comes from the printer, the Director of the Budget announces an increase of 14 billion dollars in estimated expenditures for the fiscal year 1943. This increases correspondingly the figures shown in this report both for expenditures and for the sums to be raised by taxes or borrowing. It does not change the principles set forth in the report but redoubles the need for vigorous efforts to avoid excessive credit expansion and dangerous inflation.

TREASURY WAR BORROWING
AND THE BANKS



Report by the
ECONOMIC POLICY COMMISSION
AMERICAN BANKERS ASSOCIATION

☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆

Treasury
War Borrowing
and the
Banks

REPORT BY THE ECONOMIC POLICY
COMMISSION OF THE AMERICAN
BANKERS ASSOCIATION, APRIL 1942

☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆

American Bankers Association

ECONOMIC POLICY COMMISSION

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- Winthrop W. Aldrich, Chairman of Board The Chase National Bank, New York, N. Y.
- F. M. Farris, President Third National Bank in Nashville, Nashville, Tennessee
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- John C. Wright, Vice President and Cashier American National Bank and Trust Co., Chicago, Illinois
- Dr. Paul F. Cadman, Economist A.B.A., 22 East 40 Street, New York, N. Y., *Secretary*

In the preparation of this report the Economic Policy Commission acknowledges the cooperative aid of the Research Council of the American Bankers Association, the Committee on Federal Fiscal Procedures of the Reserve City Bankers Association, and many individual bankers. Helpful suggestions were also received from national and state public officials.

The banks of the United States are eager to do their full share in financing the war. This is their special area. Their responsibility lies not simply in doing what is requested by the agencies of government, but in understanding the problem and themselves initiating plans and cooperative efforts for carrying out so vast a project. The 14,400 commercial banks, 550 mutual savings banks, and 2,800 investment bankers of the country have the capacity and mechanism to meet this responsibility.

The decisions made now as to methods of financing and the energy with which they are pursued will influence the success of the nation's war effort and will react upon the well-being of the people for many years to come.

The two ways of financing war are by taxation and by borrowing. Broadly speaking, the more the taxation and the less the borrowing, the less will be the danger of harmful inflation. A country at war must tax to the greatest extent consistent with maximum production, which in turn depends on the maintenance of morale and incentive and the preservation of the economic structure. These necessary limitations make it practically impossible for a country to finance a major war wholly out of taxation; some borrowing is usually unavoidable. In practice the tax policy, for political reasons, usually falls far short of the desirable goal,—as to amount, timing, and character. As a major means of avoiding inflation, taxes should draw back promptly into the Treasury a large part of the huge funds poured out as war expenditures. To the extent this is not done borrowing must fill the gap.

Beyond this preliminary comment this memorandum will not discuss taxation but is limited to presenting facts and principles as to the Treasury war borrowing program and the place of the banks in that program. No attempt will be made to suggest a specific financing pattern but rather the broad principles which underlie detailed methods.

Amount of Borrowing

In the fiscal year 1941 Treasury public financing totaled 5½ billion dollars. In the fiscal year 1942 the amount will be close to 19 billion dollars, and present estimates place the amount in the fiscal year 1943 at about 33½ billion dollars. These estimates are shown in the following table, based upon the President's budget message of January 4:

TABLE I
RECEIPTS—EXPENDITURES—PUBLIC FINANCING
(IN MILLIONS OF DOLLARS)

	Fiscal 1941 Actual	Fiscal 1942 Budget	Fiscal 1943 Budget
Total expenditures (excluding debt retirement)	12,711	30,576	58,928
Total net receipts (excluding social security).....	7,607	11,944	23,487*
Budget deficit	5,105	18,632	35,441
Add. govt. corp.—net outlays	1,149	2,220	2,941
Total cash requirements	6,252	20,852	38,382
Less trust funds receipts—net.....	1,385	2,018	4,764**
Net cash requirements	4,867	18,833	33,618
Change in cash balance.....	+708	-15	-3
Total public financing.....	5,575	18,818	33,615

*Includes proposed \$7 billions increase in taxes.

**Includes proposed \$2 billions increase in social security taxes.

These figures are staggering compared with anything ever done before in this country or in any other country and they may have to be revised upward. The largest amount of public financing by the United States in any one year of World War I was the 1919 figure of 13¼ billion dollars.

The estimates of expenditure for the fiscal year 1943 call for the devotion of about half of our national productive effort to war, as compared with a maximum of about one quarter in the last year of World War I.

However, other nations have been carrying a burden as great or greater than this in relation to their productive capacity, national income, and financial resources. Germany

and England are devoting over 60 per cent of their capacities to war, and Canada approximately 50 per cent. Our resources of industry, labor, and wealth are vastly larger and were not fully employed when the war began, thus greatly easing the shift to a war basis. War has found us also with a sound banking position and enormous gold reserves. While the expenditures and borrowing contemplated are huge, they are within our capacity.

We can finance this vast undertaking, but the choice of methods,—the way it is done—will affect directly the efficiency of our war effort, the extent to which that effort disorganizes our economic and social structure, and our capacity to recover prosperity after the war.

Before discussing the borrowing program it should be noted that its size, as estimated above, is dependent on such variables as the actual expenditure, and the amount of taxes collected. Table I assumes expenditures and the collection of taxes in accordance with the President's budget message of January 4, 1942. For the avoidance of inflation it is most desirable that at least these amounts of taxes be raised and that the amount of borrowing be kept to a minimum, but for the purpose of this memorandum we use the estimates of borrowing given by the President.

Sources of Funds

The problem of inflation has been well summarized by the Secretary of the Treasury: "Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential."

In the application of this principle to war borrowing, the first rule is that the Treasury should borrow as much as it can from the current income of the people which might other-

wise be spent. The great danger of inflation arises from spending power in excess of the amount of goods available to be bought, and when the Treasury taps this spending power through tax collections or through the sale of government securities it reduces the inflationary forces. The sale of war bonds through payroll deductions does exactly this. The greatest increase in purchasing power in this war effort is arising from swelling industrial payrolls. To the extent that these new funds can be drawn off in taxes and bond purchases, the danger of inflation will be lessened.

A second source of funds is idle money in the hands of individuals and corporations. The use of this money is not as anti-inflationary as the tapping of current income, but it is less positively inflationary than the purchase of bonds by banks. The use of idle money by the government gives this money greater activity; the purchase of securities by banks tends to create new money, that is, it increases bank deposits. Both of these steps are somewhat inflationary, but the second is much more so than the first. The finding of idle money, however, is the next best thing to tapping current income, and it should be sought with all possible diligence.

The worst way to finance a war (short of greenbacks which are unthinkable) is by the Treasury's borrowing at the central bank—the Federal Reserve banks. The reason for this is two-fold: first, it adds both to bank deposits and to bank reserves and has potentialities for inflationary credit expansion several times the amount actually borrowed; and, second, it is a far too easy method of borrowing, capable of grave abuse. Witness the experience of Germany and France after the last war when borrowing at the central bank became the mechanism of inflation.

The underlying principle may be summarized by saying that the desirable sources for Treasury borrowing are, in order: First, and best, from the current income of the people which would otherwise be spent; Second, from idle money in the hands of non-bank holders; Third, from the commercial banks;

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Fourth, and worst, from the Federal Reserve System.

It is in the interest of the banks, the enterpriser, the worker, the farmer and everyone else who suffers from the blight of inflation that every possible dollar be borrowed from the first source.

The following table shows in the first column actual sources of funds borrowed by the Treasury through public issues during the fiscal year 1941; and in the second and third columns, estimates for the fiscal year 1942, and projections for 1943 on the basis of certain assumptions and the continuance of recent trends.

TABLE II
ESTIMATED CHANGES IN HOLDINGS OF PUBLICLY HELD DIRECT AND
GUARANTEED DEBT BASED ON CONTINUANCE OF RECENT TRENDS
(IN MILLIONS OF DOLLARS)

	Fiscal 1941 Actual	Fiscal 1942 Estimated	Fiscal 1943 Projected*
War savings bonds.....	+1,409	+ 6,500	+12,000
Tax anticipation notes.....	—	+ 2,700	+ 1,000
Insurance companies.....	+ 600	+ 1,500	+ 1,500
Mutual savings banks.....	+ 312	+ 300	+ 300
Other (excl. coml. banks).....	- 300	+ 2,400	+ 2,400
Subtotal	+2,021	+13,400	+17,200
Commercial banks.....	+3,554	+ 5,400	+16,400
Total	+5,575	+18,800	+33,600

*Assumes: (a) war savings bond sales at rate of \$1 billion a month, the Treasury's objective; (b) tax notes sales of \$1 billion in excess of redemptions; (c) purchases by other holders (except commercial banks) at the same rate as estimated for 1942; and (d) absorption by commercial banks of the balance of the increase in publicly offered debt.

It will be seen that on the basis of these figures, out of a total increase of \$52 billions in publicly held debt in the fiscal years 1942 and 1943, the commercial banks would be called upon to take something like \$22 billions, or over 40 per cent. To the extent that sales of war savings bonds and purchases by other non-commercial banking holders may have been overstated, the portion to be taken by the commercial banks, of course, would be even larger. While allowance must be made for a wide margin of error in any such estimates and projections, the figures are nevertheless useful in giving some idea of the magnitude of the problem.

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These various sources of funds will be discussed in more detail later on, but they show in general that war savings bonds constitute the major channel now open for drawing off the current income of individuals into the Treasury, though purchases by life insurance companies and mutual savings banks do so indirectly, but just as effectively. A substantial part of the war bond sales, however, represents putting idle money to work rather than savings from income.

A rough inspection of these sources of funds shown in Table II indicates rather clearly that far too small a part of the total, perhaps one-third, represents a diversion of current income which would otherwise be spent. Perhaps two-thirds represent either the use of idle money or the extension of bank credit. In fact, unless new methods and efforts are introduced into the borrowing program, half the new money borrowing in the fiscal year 1943 is likely to come from bank credit expansion. While the banks are prepared to lend the Treasury the amounts it needs, not raised elsewhere, it is in the national interest that these amounts should be as small as possible because of the inflationary effect.

An additional point should be made here that may seem theoretical but is of real importance. Other forms of additional saving, refraining from spending, are helpful in avoiding inflation as well as specific saving through war savings bond purchases. Such saving tends to offset war spending in its effect on prices. Our program should be broad enough to recognize and encourage varied forms of saving. Excessive spending is the enemy to be overcome on this front.

Reaching Current Income — War Savings Bonds

The first step in reaching current income is to promote vigorously the sale of war savings bonds and stamps. These bonds have back of them an educational campaign of several years' duration and have demonstrated real effectiveness in their appeal to the investor. Thus we fortunately come into

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the war period with a good program already well under way. This plan like all such plans has some weaknesses; something more ideal could perhaps be devised, but no new plan could be inaugurated and put into active operation without many months' loss of time. The wise course is to use with our utmost vigor this instrument which we have. The results achieved thus far indicate the potentialities for the sale of these bonds. But only a beginning has been made, and vigorous sales efforts will bring much larger results. The banks have had a substantial share in the success of this program thus far and have the contacts and machinery to carry it much further.

It should again be noted that only part of the purchases of savings bonds have been made out of current income. It may be assumed that purchases of F and G bonds represent largely the employment of idle balances rather than of new income, but on the other hand, that a substantial part of the purchases of E bonds are out of current income. Sales divided between the three types are shown in the following table.

TABLE III
SALES OF SAVINGS BONDS, BY MONTHS
(IN MILLIONS OF DOLLARS)

	Series E	Series F & G	Total
May, 1941.....	100.6	249.2	349.8
June	102.5	212.0	314.5
July	145.3	196.9	342.2
August	117.5	148.0	265.6
September	105.2	127.1	232.3
October	122.9	147.8	270.7
November	109.5	124.0	233.5
December	341.1	187.5	528.6
January, 1942	667.4	393.1	1,060.5
February	398.0	305.2	703.2
March	337.6	220.3	557.9
Total	2,547.7	2,311.1	4,858.8

It is to be expected that the proportion of sales of E bonds will rise as payroll deduction plans are more widely adopted, and become effective. It is still true, however, that the amounts of current income absorbed by these bonds are small compared

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with the additional income created by war activities, largely in the form of industrial payrolls, and available for consumer spending. The active promotion of purchases of these bonds out of current income is a first duty of bankers and others interested in avoiding destructive inflation.

For the foregoing reason sales efforts up to now have been largely concentrated on the E bonds, and properly so. While purchases of Series F and G have been substantial for trust funds and large accounts, there has been no vigorous selling campaign for these series. Such a program could now be undertaken without confusion or interference with E bond sales, and the banks are in the best position to do it. It should bring forth substantial subscriptions, not so much out of current income, but out of idle balances, and reduce by that much the amount of government borrowing from banks.

One feature of the war bonds which has caused concern to many people is the fact that these bonds are redeemable on option of the holder, thus constituting a floating debt or demand liability for the Treasury which might prove embarrassing. Our experience with this type of obligation is limited. The bonds have been carefully designed, however, to discourage redemption, and a large portion is evidently being bought with the intention of holding to maturity. There are unavoidable dangers in any large increase in government debt. The question of demand liability is one that should be reviewed from time to time as the amount increases. In the meantime every effort should be made both in the sales campaign and later to encourage the holding of bonds to maturity.

Other Ways of Reaching Savings Funds of Individuals

Further sources of savings funds of individuals aside from those reached by war savings bonds are insurance companies, savings banks, thrift departments of commercial banks, and building and loan associations. These agencies provide an indirect channel for gathering up savings from current in-

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come and making them available for war use.

With normal outlets for their funds likely to become more restricted under a war economy, insurance companies may have as much as $1\frac{1}{2}$ billion dollars a year available for the purchase of government securities. Insurance companies are among the few willing buyers of bonds of long maturity. They are more interested in the rate and will take the longest bonds offered.

As noted earlier, the savings banks have been sizeable buyers of government securities, but it seems unlikely that they can be counted upon for much this year. The savings banks as a whole have not been gaining deposits, partly because their customers have been buying war savings bonds. There is no advantage in depositors withdrawing money from savings banks to buy war bonds if this results in forcing the savings banks themselves to sell some of their own holdings. A recent tendency in this direction further emphasizes the desirability of directing the campaign for the sale of war bonds primarily to the absorption of current income.

With building reduced, building and loan organizations are likely to have funds available for investment in governments.

The objective is to gather up the newly created income of the people through *every* available channel. In the long run it would impair the program if the war bond drive were so narrow as to damage such savings agencies as savings banks, building and loan associations, and insurance companies. To avoid this the war savings bond publicity program should be a coordinated effort recognizing the place of these different collecting agencies as media through which large amounts of savings will reach the government.

Tax Anticipation Notes. Tax anticipation notes for individuals have not produced any substantial amount of money. There must be large amounts of funds held by individuals for the payment of taxes which might be reached by some modification of the program. It might be wise, for example, to raise the limit on the A Series of notes from \$1,200 to \$10,000 or

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more. Since taxpayers will return to the government a substantial part of interest received, the net interest paid even at 2 per cent would not be large after deduction of taxes. The present plan furnishes little incentive for the individual taxpayer, and there are large amounts of funds available which should be reached.

Bankers and Depositors. In recent years there has been a remarkable increase in bank deposits which is likely to continue. To the extent that depositors use these deposits for the purchase of government securities the amounts which banks themselves must buy are reduced. While withdrawals from these deposits may compel adjustments of position for some banks, deposits for the banks as a whole are not reduced. For not only are funds collected by the government soon spent and thus returned to the banks, but aggregate deposits are certain to increase greatly with the expansion of bank investments in government securities.

In this process of the flow of deposits into government bonds and the return flow of funds back into the banking system, some individual banks and some sections of the country will lose funds and others will gain. For example, funds have for some months been flowing out of the money centers and into munition-making areas. Only experience can show the amount of stresses and strains resulting from this process. It seems likely that this problem can be met without serious difficulty by first providing a larger volume of liquid short securities, such as the certificates of indebtedness sold in April, which can be a means of reserve adjustment between banks; secondly, the purchase and sale of federal funds between banks; and, third, by the intervention of the Federal Reserve banks in buying government securities from individual banks or in specially affected areas. This possible danger should certainly not stand in the way of a vigorous sales campaign.

The banker who has been constantly engaged in trying to build up his deposits may naturally hesitate to suggest to a depositor the use of that deposit to buy government bonds,

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especially if large amounts are involved. To leap this hurdle the banker will need a somewhat new point of view—which the new situation justifies. He will recognize that deposits are bound to increase in any case, and that the self-interest of banking is best served by his energetic cooperation in measures to place as much as possible of the increased government debt in the hands of non-banking holders. Not only is this in the interest of banking, but is equally in the interest of the country at large, both for the reason that bonds placed outside the banking system are less inflationary than bonds sold to the banks, and because the broader the distribution of such securities among the people the greater the likelihood of public support for sound fiscal policies.

Hoarded Money. A further substantial source of funds of individuals that remains untapped is hoarded currency. The present amount of money in circulation is about 11½ billion dollars, as compared with around 4½ billion dollars at the peak of the 1929 prosperity. A part of this is accounted for by higher wage rates and larger incomes of lower income groups not accustomed to having bank accounts. A substantial amount represents hoarding. It should be possible to devise some appeal which would bring forth some of these funds for the use of the government. This again is a special problem requiring individual analysis.

In this whole program of reaching current savings and idle investment funds it should again be emphasized that the banks and investment bankers of the country, under the guidance of the Federal Reserve banks, constitute, as was demonstrated in World War I, the agencies best qualified to aid the Treasury in the distribution of its obligations.

Reaching Corporation Funds

In the past year the Treasury tried successfully an experiment in reaching the current income of corporations, in the form of Series B tax anticipation notes. These performed the

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valuable service of bringing over $\$1\frac{1}{2}$ billion dollars into the Treasury perhaps a year earlier than its normal payment in taxes. This is, of course, an anticipation of future receipts rather than a new source of funds, and any future increase depends largely on further rises in corporate income and its taxation.

In addition to tax reserves many corporations hold substantial amounts of cash. While borrowing this is not as useful as tapping current income otherwise expendable, funds from this source at least reduce the amount to be borrowed from banks.

There are differences of opinion as to the amount of corporation cash which might be reached. Industries doing defense work will need most of their cash and some will have to borrow. On the other hand, in non-defense industries inventories will be liquidated and depreciation reserves and maintenance funds cannot be fully employed in plant and equipment because of priorities. Without dogmatism as to amounts available, they are at least substantial and should be reached. In Canada corporations are heavy buyers of War Loan Bonds partly as temporary underwriters and partly to hold.

Most corporations consider it necessary that securities which they purchase should be liquid and not subject to substantial fluctuation in price. This means that they are ordinarily interested in obligations with maturities up to two years, though some corporations might go longer than that if they can always realize on the securities promptly.

Treasury bills have been sold at such a low yield basis that after taxes they are only worthwhile for buyers who have a special requirement for them. But whenever the Treasury bill rate has gone above $\frac{1}{4}$ per cent, corporations have begun to buy. An immediate logical step in reaching corporations would be to supply the market with enough bills and other short maturities so that this market will no longer be starved and corporations can fill their needs. The banks also need a broader market of short term securities to facilitate adjust-

ments of position between banks. The recent issue of Treasury certificates is a sound step in this direction.

Distribution of Maturities

Another principle to be considered in determining a borrowing program relates to the distribution of maturities of the public debt. By June, 1943, the national debt is likely to be well over 100 billion dollars. It is desirable that the maturities of this debt should be spread out over a sufficient number of years so that the Treasury would not have to refund too large an amount in any one year, particularly during the period when large amounts of new money have to be raised. Table IV on page 16 shows the distribution of the present Treasury debt in terms of maturities.

It must be recognized that there is here a conflict in interest. All lenders would like to avoid the risk of fluctuations in the market values of holdings, a protection they ordinarily obtain by holding short maturities. On the other hand, both from the point of view of the Treasury and because of the effect on the money market, security markets, and the whole economy, it is undesirable for the Treasury to face too large maturities in nearby years. It is the old problem of a floating debt which proved so disastrous to France after World War I. This conflict of interest between what most borrowers want and the Treasury's position, is always one of the difficult problems for Treasury financing.

Fortunately, the Treasury for some years has been following a policy of selling long term bonds whenever possible with the recognition that it was desirable to leave the nearby years reasonably open for financing in an emergency. This policy leaves the Treasury much more free at this time to meet the needs of investors than would otherwise be true, though it is still desirable to spread out new financing as much as possible without sacrificing other objectives, and especially the objective of putting the debt into the hands of investors other than banks.

TABLE IV

MATURITIES OF UNITED STATES DIRECT AND GUARANTEED SECURITIES
OUTSTANDING AS OF DECEMBER 31, 1941
(EXCLUSIVE OF "SPECIAL ISSUES" SOLD TO VARIOUS FEDERAL TRUST FUNDS)

(IN MILLIONS OF DOLLARS)

Year	Classified by year in which issues are first callable*	5-Year Average	Classified by year in which issues mature	5-Year Average
1942	5,125	5,201	3,908	3,631
1943	6,336		4,481	
1944	6,798		3,410	
1945	4,575		4,008	
1946	3,175		2,350	
1947	1,879	3,603	3,884	3,042
1948	3,849		1,975	
1949	3,084		2,460	
1950	2,185		2,686	
1951	7,017		4,206	
1952	1,043	1,526	3,233	2,629
1953	816		2,995	
1954	707		3,713	
1955	2,632		2,034	
1956	2,431		1,170	
1957	919	491	1,449	1,018
1958			982	
1959	1,485		2,611	
1960			50	
1961	50		50	
1962	2,666		919	500
1963			95	
1964			1,485	
1965				
1966				
1967			2,666	
1968				
1969				
1970				
1971				
1972				
Total	56,770		56,770	

*Fixed maturity issues are classified by year in which due. Those non-marketable issues that are redeemable at any time at option of owner are classified by years in which due.

Source: Daily Treasury Statement—Dec. 31, 1941.
Treasury Bulletin—January, 1942.

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General Place of Commercial Banks

In this whole program the banks have an important function as distributors of securities to investors. Banks are willingly doing millions of dollars' worth of work in connection with the war savings bond campaign for which they receive no reimbursement. This is in conformity with the practice established for many years in this country by which the banks have performed for the Treasury a substantial number of free services in connection with Treasury financing operations.

Bankers as individuals are also accepting a large measure of responsibility for their community organizations to sell war bonds. Their special knowledge of the problems and principles of war finance, as well as of local conditions, qualify them for this leadership.

Hitherto the banks have acted, in a sense although not technically, as underwriters of government security issues, pretty much regardless of maturity. Their subscriptions have insured the initial sale of every issue and they have later distributed over a period a considerable amount of the securities so purchased to investors and institutions. For some years these undertakings have been attractive because of the market's reception of spaced new offerings and the rising trend of bond prices.

In approaching the expanded program of borrowing for war, bank policy in this connection should be reexamined. To a greater extent than heretofore, bond offerings will be directed to special needs of groups of investors and institutions. It is probable that banks will not be expected to perform an underwriting function in support of issues bearing longer maturities than the range considered suitable for their own investment. Within that range, however, their responsibility will be continued and even increased.

Banks' Own Purchases

In the fiscal year ended June 30, 1941, holdings of government securities by commercial banks were increased by 3½

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billion dollars. In the current fiscal year this increase is likely to be over 5 billion dollars, and in the fiscal year 1943 it may be three times or more that amount unless purchases by other buyers are very largely increased.

Table V is designed to show the effect of any such large additional purchases on the general condition of the banks. The data used are for member banks only, for which recent reports are available, and the table assumes for illustrative purposes the changes in government security holdings indicated in Table II; that bank loans and holdings of securities other than governments will remain practically stable in 1943, and bank deposits will increase along with holdings of government securities, except to the extent that money in circulation increases.

TABLE V
EFFECT OF GOVERNMENT SECURITY PURCHASES ON ALL MEMBER BANKS, ASSUMING PURCHASES AS INDICATED IN TABLE II
(IN BILLIONS OF DOLLARS)

	June 30 1941	Dec. 31 1941	June 30 1942	June 30 1943
TOTAL LOANS & INVESTMENTS:				
Loans	16.7	18.0	18.5	18.5
Governments	18.1	19.5	22.5	36.5
Other Investments.....	5.8	6.0	6.0	6.0
Total	40.6	43.5	47.1	61.0
LIABILITIES:				
Deposits	58.5	61.7	64.4*	76.1**
Capital Funds.....	5.8	5.9	6.0	6.2
CAPITAL FUNDS RATIOS:				
To Deposits	9.9%	9.6%	9.3%	8.1%
To Loans & Investments.....	14.3%	13.6%	12.7%	10.2%

*Allows for increase of \$1.1 billion in money in circulation Dec. 31, 1941 to June 30, 1942.

**Allows for increase of \$2.6 billions in money in circulation July 1, 1942 to June 30, 1943.

Currency increase in both cases calculated at annual rate indicated for country shown in April 1 bank statement, reduced by 15% to apply to member banks.

It has been assumed in Table V as a working hypothesis that the Federal Reserve System would maintain adequate bank reserves by open market operations or by reducing reserve requirements. Thus the banks would be constantly supplied with the additional reserves needed to finance the expansion of loans, investments, and deposits required in this program.

An Inflationary Trend. A first observation from these facts is that they indicate a highly inflationary tendency. They show an increase of about 25 per cent in bank deposits and an even larger percentage increase in total loans and investments from December 31, 1941 to June 30, 1943, a period of 18 months, and the war may last years beyond that time. With such a huge addition to purchasing power at a time of great activity, the maintenance of stable prices would be most difficult. Added to the actual increase in bank deposits is the expectancy of an increased rate of turnover of existing deposits. Even if inflationary effects were resisted in the war period, post-war stability would be endangered.

A first conclusion is that ways must be found to finance the war more largely from taxes and from bond sales to the people. A second conclusion is that each bank must be prepared to take into its own portfolio its fair share of the bonds which the banking system will itself be called upon to absorb.

Capital Position and Government Holdings. It will be seen that under conditions assumed in the foregoing table the ratios of bank capital to deposits and to loans and investments would be considerably reduced. There does not seem to be any reasonable way by which capital could be increased as rapidly as government security holdings, since the banks must be expected to pay their share of the added tax bill. The table, therefore, assumes that bank capital will only increase at slightly more than the rate of the last two or three years, namely, about 200 million dollars a year. This will be discussed later.

However, since the increase in the assets of the banks is likely to be mainly if not wholly in cash and in government securities, their ultimate soundness is not seriously impaired by even the changes contemplated above. The principal immediate question aside from inflationary dangers is with respect to fluctuations in market value of the securities and possible loss in case these securities should have to be liquidated.

It is difficult now to anticipate circumstances under which

such liquidation would be necessary in important volume. The Federal Reserve System is ready to discount notes secured by governments at their par value and it may safely be assumed that this practice will continue during the war period. Moreover, the Treasury and the Federal Reserve System have ample power to keep the banks supplied with cash; so that there need be no occasion in the banking system as a whole for liquidation of securities. It is to be expected that the Treasury and the reserve system would be active in attempting to avoid severe fluctuations in the market.

Nevertheless, since conditions change rapidly and unforeseen post-war conditions will succeed the war, and much of the war-created debt will be outstanding for years to come, it seems unwise to take for granted that the Treasury and the central bank can underwrite fully and indefinitely against such fluctuations. One proposal, therefore, to safeguard this situation is that the securities offered the banks should be wholly of very short maturities of perhaps one to five years and hence subject to only modest fluctuations even with a considerable change in the market. The difficulty with this proposal is that under it the Treasury would have a huge floating debt which has to be renewed embarrassingly often, at the same time that large additional issues for new money are being floated.

A more realistic suggestion would be the sale to the banks of maturities ranging from one year to about ten years. This would have the effect of spreading out Treasury maturities and would give the banks well distributed portfolios with a fair yield and some market outside the banks. With obligations up to ten years and an average maturity of less than five years the banks would not be exposed to serious fluctuations in values.

Interest Rates and the Market. The foregoing shows the need for financing the war on a fairly steady level of interest rates. Serious fluctuations in rates would cause concern and interfere with the maintenance of a broad and active market, which is necessary as a means for effecting adjustments between individual banks and other institutions and taking care of the

flow of funds through the market incident to the enormous transactions of the war period. The Treasury, moreover, would be handicapped in its financing program if succeeding issues of bonds appeared at sharply rising interest rates. Investors would be tempted to wait for better rates. Such a tendency would be natural in view of the fact that the present interest rates are the lowest in the history of this or any other country.

The experience of England and Canada, however, has shown that it has been possible to finance their war effort at fairly steady rates. For this purpose the fundamental necessity is the general understanding on the part of the market, the banks, and the government that rates will be maintained at a fairly steady level within a moderate range of fluctuations. To attempt to peg a rate firmly would defeat the purpose for it would take away freedom of trading in the market, which is essential both to confidence and to the usefulness of the market for adjustments between investors and institutions.

For the maintenance of a broad and dependable market for government securities, the prime necessity is cooperative understanding between the Treasury and the Federal Reserve System on the one hand, the banks and other buyers on the other.

Reserve Position. Closely related to the question of the maintenance of steady interest rates is the reserve position of the banks. For a number of years the banks have held huge amounts of excess reserves and this excess has been largely responsible for a continuous decline in interest rates. It has made Treasury financing very easy, for as rates fell, bank earnings fell also, and the banks were under pressure to use excess funds to buy more government securities.

Now this situation needs to be reexamined for it is necessary that securities be distributed widely among investors and the banks take only what cannot be sold to others. The banks ought to have less inducement to invest; others should have more. This object would probably be achieved more easily if excess reserves declined somewhat. But they should not be allowed to decrease enough to place pressure on the market.

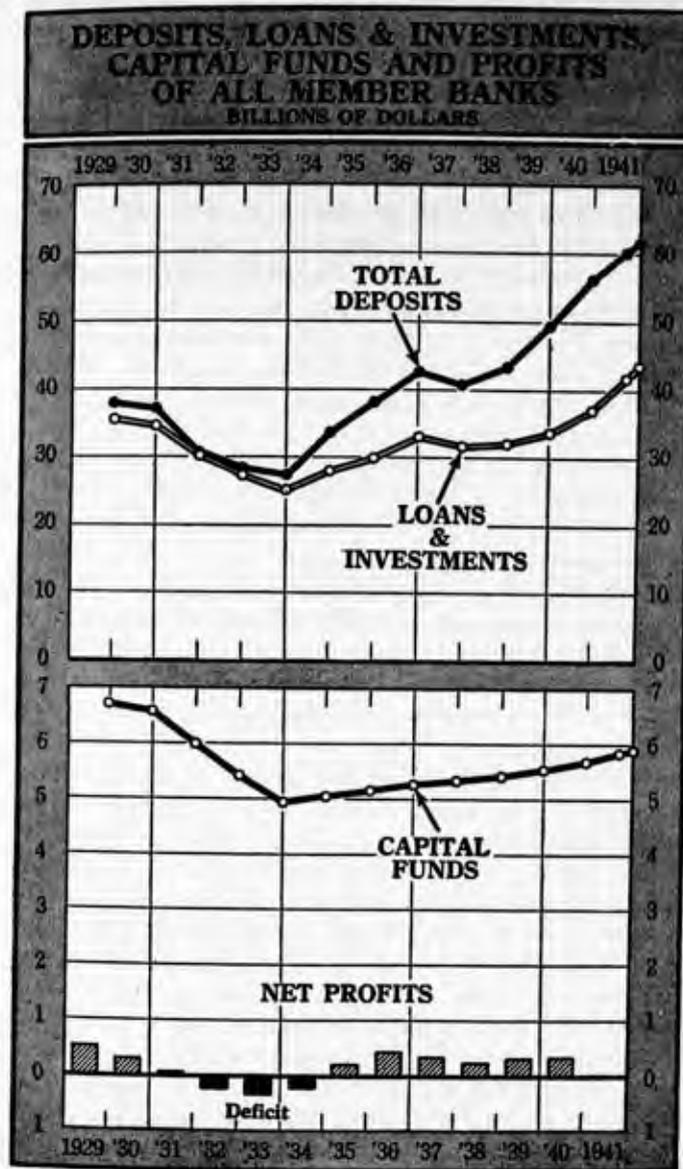
The current increase in deposits together with currency withdrawals will normally lead to some decrease in excess reserves. It may be assumed, however, that the Federal Reserve System and the Treasury will provide for sufficient excess reserves to maintain interest rates within their recent general range. Such approximate stabilization of rates should not be impossible to attain under somewhat smaller excess reserves, especially if we assume, first, some redistribution of reserves as between banks, resulting from a larger supply of short term securities in the market, and second, mutual cooperation with respect to the market between the Treasury and the reserve system, and the banks.

However, it is clearly impossible to be dogmatic as to the most desirable amount of excess reserves. That must be worked out from experience, having in mind, however, the desirability of selling the maximum amount of government securities to investors other than banks.

Bank Capital and Earnings. The recent history of the banks with respect to their capital and earnings is shown in the diagram on page 23 for member banks.

These data may be summarized by saying that in the period from 1929 through 1933 the banks absorbed very large losses so that their capital funds were reduced by about 1,750 million dollars, or 26 per cent. Since that time they have restored out of earnings and recoveries about half of this loss, but their capital funds, even including about 300 million dollars of R.F.C. contributed funds, are still 12 per cent less than in 1929, and their loans and investments 17 per cent larger. Their earnings in this recent period have not been sufficient to build their capital as rapidly as their assets and liabilities have increased. Neither their earnings nor their earning prospects have been good enough to enable them to sell additional capital stock to the market. The typical bank has been paying dividends equal only to about 3 per cent of its capital funds. So this emergency finds the banks with clean assets but with reduced capital.

[22]



[23]

As indicated above, this capital, taking the banking system as a whole, is probably sufficient for the need, but in order to maintain unquestioned public confidence in the face of great increases in assets and liabilities some further steady increase in capital seems desirable. With the increase in security holdings, increased earnings are normally to be expected, and it is important that enough of these earnings remain in the banks after taxation to allow a moderate but steady increase in capital funds. Similarly it would seem a wise policy for the banks themselves to strengthen their positions by a thoroughly conservative policy as to building up reserves and as to the payment of dividends. This is not a long term solution but adequate for the present emergency.

A Critical Year and Task

This report has dealt with many technical questions. It should close with a broader outlook.

These are days of disappointment and regret,—regret that our preparations for war have been so tardy and so inadequate. As in France and in England, so it has been with us in the Philippines, at Pearl Harbor, and on the high seas. Our sin has been "the unlit lamp and the ungirt loin." We have done too little, too late.

Wars are not won by armies and production alone. They are fought also in the area of finance; for bad finance may mean inflation and disorder, which in their turn delay production at vital points where a week or even a day's difference in deliveries of guns and ships might lose a battle or a campaign.

Today there is growing recognition that in the fight against inflation and economic disorder there is danger of doing too little, too late. In this area the banker shares with government, responsibility for an orderly financial program. Bonds must be sold outside of the banks. The people who should buy them live in our neighborhoods. Many of them have money in our banks. We see them constantly. They consult us and respect our judgment on financial questions. The bankers in each

neighborhood are the people specially qualified to lead the way in selling bonds to the public.

Bankers have not neglected this problem. They were already hard at work on it before Pearl Harbor and have had a large share in the successes so far achieved. But if the findings of this report are correct our work has only just begun. To do a useful job in this war we do not have to get into uniform or go to Washington. Each one of us has a task right at home demanding his full energy.

Summary

1. The present budget program calls for public financing of \$18,800,000,000 in fiscal 1942 and \$33,600,000,000 in fiscal 1943. Still larger sums may follow.
2. The way this huge sum is raised will influence our whole economic and social structure.
3. To help avoid damaging inflation the greatest part of this sum should be borrowed from the current income of people who would otherwise spend it,—and next best from funds now idle.
4. Banks and bankers are offered the opportunity of assisting the Treasury in the sale of war savings bonds and other government securities to investors, of acting in effect as underwriters of government issues, and providing themselves what additional funds may be required by the Treasury, all with the support of the Federal Reserve System acting only as the lender of last resort.
5. Even with the best efforts to place securities with other investors, the Treasury's needs will require a large increase in bank holdings. Each bank must be ready to take its fair share of these securities.
6. To avoid disturbed markets and uncertainties a fairly steady level of interest rates is desirable, and it can be maintained with the cooperative effort of the banks, the Treasury, and the Federal Reserve System.
7. The sale of government securities to investors other than

banks might be encouraged if excess bank reserves were allowed to decrease somewhat as deposits expand. A smaller amount should be adequate to maintain reasonable stability of money rates.

8. During this period banks cannot expect to maintain as high capital ratios as in the past nor does this appear to be necessary as long as their expansion of assets is mainly in cash and government securities. Banks should be allowed to earn enough, however, to increase their capital at a moderate rate.
9. In the fight against inflation the banker, by virtue of his position in the community, has a special task at his own doorstep in selling bonds to investors. He shares responsibility with government to see that in this area there is no repetition of "too little" and "too late."



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent changes in prices and yields of Government securities.

All sectors of the market have lost ground during the past week, although slight recoveries were shown yesterday. Both partially tax-exempt bonds and taxable bonds showed approximately similar losses but wholly tax-exempt notes declined less than taxable notes. The declines in taxable bonds during the week ranged from 5/32 in the case of the 2's of 1951-55 to 12/32 in the case of the 2's of 1948-50. The 2-1/2's of 1967-72 declined by 6/32. The declines in the taxable notes were much smaller running from one to 4/32.

All taxable bonds and notes are now below the March 19 prices. As a result, a comparison of the yields of taxable bonds and notes on March 19 and as of last night's close shows the level of yields has increased, particularly in the case of short-term securities.

The average rate on this week's issue of Treasury bills increased again for the fifth successive week. The average rate this week was .34 percent as compared to the recent low of .20 percent in the case of the issue of March 18. Certificates of indebtedness lost ground during the past week, the quoted yield rising from .44 percent last Thursday to .48 percent early this week, where it stood at last night's close.

During the week ended last night, the Federal Open Market Account purchased \$68 millions of Treasury securities, of which \$49 millions consisted of bills. The other purchases consisted of taxable bonds including \$6.5 millions of the 2-1/2's of 1967-72. No sales were made by the Account during the week.

Price and Yield Changes of United States Securities
March 19, 1942 to April 30, 1942

Security	Prices			Yields		
	March 19, 1942	April 30, 1942	Change	March 19, 1942	April 30, 1942	Change
	(Decimals are thirty-seconds)			(Percent)		
<u>Bills</u>						
Average rate last issue	-	-	-	.20	.34	+.14
<u>Certificates</u>						
1/2% 11/1/42	-	-	-	-	.48	-
<u>Variable Notes</u>						
3/4% 3/15/43	100.12	100.06	-.06	.37	.53	+.16
3/4 9/15/44	99.31	99.22	-.09	.76	.88	+.12
3/4 12/15/45	99.21	99.09	-.12	.84	.98	+.14
1 3/15/46	99.29	99.21	-.08	1.02	1.09	+.07
<u>Variable Bonds</u>						
2 3/15/46-50	101.28	101.12	-.16	1.67	1.75	+.08
2 6/15/49-51	101.04	100.23	-.13	1.33	1.89	+.06
2 12/15/51-55	100.12	100.10	-.02	1.96	1.96	.00
2-1/2 3/15/52-54	103.23	103.17	-.06	2.09	2.10	+.01
2-1/4 6/15/52-55	101.06	100.31	-.07	2.12	2.14	+.02
2-1/2 3/15/56-58	103.05	102.18	-.19	2.24	2.28	+.04
2-1/2 9/15/57-72	100.27	100.21	-.06	2.46	2.47	+.01
<u>Wholly Tax-exempt Notes</u>						
2 3/15/42	101.04	100.26	-.10	5/32*	2/32*	-3/32*
1-3/4 12/15/42	101.11	101.01	-.10	2/32*	.10	-4/32*
1-1/8 6/15/43	101.04	100.29	-.07	.22	.32	+.10
1 9/15/43	101.03	100.28	-.07	.26	.36	+.10
1-1/8 12/15/43	101.16	101.06	-.10	.26	.39	+.13
1 3/15/44	101.10	101.04	-.06	.34	.40	+.06
3/4 6/15/44	100.27	100.23	-.04	.37	.41	+.04
1 9/15/44	101.16	101.10	-.06	.39	.44	+.05
3/4 3/15/45	101.00	100.29	-.03	.41	.43	+.02
<u>Partially Tax-exempt Bonds</u>						
3-3/8 6/15/43-47	103.21	103.07	-.14	.41	.50	+.09
3-1/4 10/15/43-45	104.06	103.23	-.15	.57	.68	+.11
3-1/4 4/15/44-46	105.06	104.23	-.15	.72	.81	+.09
4 12/15/44-54	108.11	108.02	-.09	.91	.88	-.03
2-3/4 9/15/45-47	106.06	105.29	-.09	.94	.97	+.03
2-1/2 12/15/45	105.28	105.17	-.11	.90	.94	+.04
3-3/4 3/15/46-56	110.08	109.29	-.11	1.11	1.13	+.02
3 6/15/46-48	107.28	107.19	-.09	1.09	1.11	+.02
3-1/8 6/15/46-49	108.08	108.00	-.08	1.13	1.13	.00
4-1/4 10/15/47-52	115.20	115.12	-.08	1.33	1.32	-.01
2 12/15/47	104.23	104.21	-.02	1.15	1.14	-.01
2-3/4 3/15/48-51	107.28	107.22	-.06	1.38	1.38	.00
2-1/2 9/15/48	107.07	107.02	-.05	1.33	1.34	+.01
2 12/15/48-50	104.21	104.18	-.03	1.28	1.28	.00
3-1/8 12/15/49-52	110.22	110.24	+.02	1.65	1.62	-.03
2-1/2 12/15/49-53	106.16	106.13	-.03	1.60	1.60	.00
2-1/2 9/15/50-52	106.20	106.18	-.02	1.66	1.66	.00
2-3/4 6/15/51-54	108.18	108.16	-.02	1.74	1.74	.00
3 9/15/51-55	110.20	110.17	-.03	1.78	1.78	.00
2-1/4 12/15/51-53	104.29	104.26	-.03	1.70	1.71	+.01
2 6/15/53-55	103.10	103.13	+.03	1.68	1.66	-.02
2-1/4 6/15/54-56	104.28	104.27	-.01	1.80	1.80	.00
2-7/8 3/15/55-60	110.00	109.28	-.04	2.00	2.00	.00
2-3/4 9/15/56-59	109.10	109.02	-.08	2.01	2.02	+.01
2-3/4 6/15/58-63	109.12	109.09	-.03	2.07	2.07	.00
2-3/4 12/15/60-65	110.00	109.25	-.07	2.10	2.11	+.01

Treasury Department, Division of Research and Statistics.

April 30, 1942.

* Excess of price over zero yield.

96

○ Secret Service man carried to White House
1:00 p.m., 5-1-42

MAY 1 - 1942

MEMORANDUM FOR THE PRESIDENT:

I don't think the attached letter of April 21 of Secretary Jones requires any reply.

This is the situation as I understand it. Donald Nelson wrote Secretary Jones on April 22 (copy of which letter is also attached) to the effect that Defense Plant Corporation rather than Treasury should bear the risk of loss involved in the use of the free silver stocks in its plants as a substitute for copper. Donald Nelson tells me that after Cabinet last Friday (April 24) Secretary Jones handed you Nelson's letter of April 22 and you told him to go ahead in accordance with Nelson's letter and indicated your approval by endorsing "O.K. F.D.R." on the bottom of the letter.

This apparently settled the matter so far as Secretary Jones is concerned as we are proceeding with the contract along the lines indicated in Nelson's letter.

(Signed) H. Morgenthau, Jr.

EHF:mdm
5/1/42

E. H. J. Jr.
7th fl.

C
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Y

THE WHITE HOUSE
Washington

April 29, 1942.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY:

FOR PREPARATION OF REPLY.

F.D.R.

THE SECRETARY OF COMMERCE
Washington

C
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April 21, 1942

Dear Mr. President:

You will recall at Cabinet a week ago the question of Defense Plant Corporation using silver in lieu of copper in the construction of aluminum plants.

Defense Plant Corporation is prepared to bear the cost of transporting the silver to fabricating plants, the cost of fabricating this silver into bus bars and conductors, the restoration of the silver to bar form, and its return to the Treasury, less incidental weight lossage due to abrasion and fabrication, when requested by the President or the Secretary of the Treasury.

I think this is all that should be expected of Defense Plant Corporation.

If you concur, please advise the Secretary of the Treasury and me.

Sincerely yours,

(signed) Jesse H. Jones

Secretary of Commerce

The President
The White House

P
1
April 22, 1942

Dear Jesse:

I am in receipt of a letter from Henry Morgenthau dated April 16, 1942, enclosing copies of his recent correspondence with you on the subject of the substitution of silver for copper for bus bars and other purposes. In order to save time in this pressing matter, I am writing you directly and am sending a copy of this letter to Mr. Morgenthau.

Mr. Morgenthau, in his letter, referred to the fact that the Treasury Department concluded there was legal authority to permit the use of the free silver on the basis that it be returned to the Treasury and that any loss through wear or tear or other reasons be made good. Mr. Morgenthau states that the Attorney General rendered an opinion concurring in the Treasury's view and that the President approved the proposal.

In your letter of April 14th to the Secretary of the Treasury you suggest that the Defense Plant Corporation should not bear the risk of loss involved in its agreeing to return silver of the same weight and fineness to the Treasury. Any such change from the other proposal would appear to necessitate further delay, as it would presumably require a further opinion from the Attorney General, and possibly another approval from the President.

It is of the utmost importance that these arrangements be completed promptly, if we are to save the copper and not delay the aluminum and magnesium programs. Accordingly, I request that you, through the Defense Plant Corporation or any other agency under your jurisdiction, agree to bear these risks. If for any reason you feel you do not have the authority to make such an arrangement, please advise me as promptly as possible.

Sincerely yours,

Donald M. Nelson

The Honorable
The Secretary of Commerce
cc: Secretary of Treasury

LML:KOH:ims

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 1 - 1942

TO Secretary Morgenthau
FROM Mr. Foley

The question has arisen as to whether there is authority to supply the silver market with approximately five million ounces of "free silver" held by the mints and classified as "Silver Ordinary", in order to alleviate the present severe shortage.

Part of the silver under consideration was acquired in deposits of gold, and part was purchased as bullion for coinage. U.S.C., title 31, secs. 327, 328, 360, 362. There appears to be no statutory limitation on the use which can be made of this type of silver. Section 4 of the Silver Purchase Act of 1934 (48 Stat. 1178, U.S.C., title 31, sec. 734b) authorizing the sale of silver under certain circumstances which are not now in existence, applies only in connection with the sale of silver acquired under that Act. Section 2 of the Silver Purchase Act of 1934 provides as follows:

"It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver."

- 2 -

It is apparent that this provision is merely a declaration of policy and not a limitation on powers which were exercised prior to 1934 with respect to silver held in the Treasury.

Before the passage of the Silver Purchase Act of 1934 it was the practice of the mints to furnish silver out of "Silver Ordinary" for medals struck for Government agencies. Shortly after the passage of that Act this practice was discontinued, apparently on the assumption that section 4 of the Silver Purchase Act prohibited such sales, but in 1940 it was pointed out that this assumption was erroneous and the practice was resumed. Since the authority to sell "Silver Ordinary" existed prior to June 19, 1934 and the provisions of the Silver Purchase Act are not inconsistent therewith, it is my opinion that such authority still exists and may be exercised with respect to all or any part of this type of silver.

The total amount of "Silver Ordinary" now owned by the United States is 4,957,025.61 ounces which is carried on the Daily Statement at its average cost price of 43.33 cents per ounce. Should all of this silver be sold on the open market at the prevailing price of 35.375 cents per ounce, a net loss of almost 8 cents per ounce would result.

- 3 -

There is no appropriation act which would authorize such an expenditure. However, the value at which this silver is carried is determined by averaging the prices at which its component parts were purchased, and since there are approximately 1,300,000 ounces which were purchased at prices lower than the present market price, the Treasury would suffer no loss should this latter portion be sold at the prevailing rate. Should it be found necessary to dispose of a larger amount than that which could be sold without the Treasury suffering a loss, an arrangement might be worked out with the Metals Reserve Company. That Company could place silver on its list of critical and strategic materials, purchase the silver under consideration at 43.33 cents per ounce, and sell it to industrial users at the prevailing price, thus absorbing the excess cost of an important material in order to make it available for the production of articles and commodities essential to the war effort.

In view of the statement of policy in section 2 of the Silver Purchase Act with respect to silver in the monetary stocks, I feel that it would be wise to present this plan to the Special Silver Committee of the Senate for its approval.

S. 1276

May 1, 1942

My dear Mr. Hinckley:

Reference is made to your letter of April 28, 1942, concerning the procurement of commercial motor vehicles for the Coast and Geodetic Survey and the Civil Aeronautics Administration by the Procurement Division of this Department.

The policy of consolidating purchases of major items of supply and equipment in the Procurement Division was established at the request of and in conjunction with the Division of Purchases, Office of Production Management. One of the objectives of this policy is the avoidance of competition for supplies and equipment among the various agencies of the Government by channelizing essential requirements through certain agencies of the Government. The Procurement Division was selected as the agency to handle certain purchase transactions for all of the executive departments and agencies with the exception of the War and Navy Departments, the Marine Corps and the Maritime Commission, pursuant to authority granted by Executive Order 6166, dated June 10, 1933.

It is realized that delay was encountered during the period when the procedures for carrying this policy into effect were being formulated. However, since this procedure was established, we have been able to render prompt and efficient service in the procurement of equipment. All requisitions received since April 1, 1942 have been cleared without delay.

- 2 -

It is assumed that the comparison of prices mentioned in the fourth paragraph of your letter is based on prices formerly paid to manufacturers. Under present conditions, since the manufacture of commercial motor vehicles has been terminated by order of the War Production Board except for special orders, it has been necessary in some cases to procure vehicles from dealers' stocks. Equipment purchased from dealers normally carries higher prices than those paid to manufacturers.

Due to these facts and to the fact that the granting of exemptions would seriously affect the above stated policy in both this office and the War Production Board, it is felt that exemptions should not be granted.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable
The Assistant Secretary of Commerce
Washington, D. C.

Phone file n.m.c.

File to Humphreys



THE ASSISTANT SECRETARY OF COMMERCE
WASHINGTON

April 28, 1942

My dear Mr. Secretary:

Circular letter No. 538 issued by the Procurement Division of the Treasury Department states that that organization exclusively will undertake the purchase of automotive equipment for all governmental agencies except the Army and Navy, Marine Corps and the Maritime Commission. A memorandum dated April 14, 1942, and addressed to the Coast and Geodetic Survey and the Civil Aeronautics Administration and others, signed by Mr. Ernest Kanzler, Chief, Automotive Branch, War Production Board, and approved by Mr. Clifton E. Mack, Director of Procurement, states that the Procurement Division, exclusively, will be the purchasing agent for commercial automotive equipment for, among others, the two agencies mentioned above.

All field units of the Coast and Geodetic Survey are engaged in essential war activities and the activities of the Civil Aeronautics Administration are also related to the war effort. The War Production Board has placed both of these bureaus in the same classification as the Army, Navy and Maritime Commission with respect to priority regulations for the procurement of equipment and supplies.

The control and distribution of new automotive equipment is a function of the Automotive Branch of the War Production Board. The needs of the Coast and Geodetic Survey and the Civil Aeronautics Administration for the remainder of the fiscal year 1942 and for the fiscal years 1943 and 1944 have been reported to the War Production Board and a definite quota has been established to take care of their requirements. The use of government exemption permit Form PD-322 by these bureaus in reporting directly to the War Production Board will serve the required purpose of controlling quotas and it should not be necessary to forward this form to and to make the actual purchases through the Procurement Division. This automotive equipment can be purchased in the field through the existing facilities of these agencies without recourse to the Procurement Division, which will expedite the acquisition of these necessary units.

Recent experience has indicated that the purchasing of commercial automotive equipment through the Procurement Division has resulted in delays of several months, seriously hampering the war

(2)

parts of both of these agencies, and that the final acquisitions were at prices from \$200 to \$400 in excess of that which would have been required had these individual agencies made the purchases locally using their own facilities.

Due to the serious delays to the war effort of these agencies, as outlined above, caused by the procedure required, it is desired that the Coast and Geodetic Survey and the Civil Aeronautics Administration of this Department be excepted from the provision that purchases of commercial automotive equipment must be made through the Procurement Division and that existing instructions be amended to permit this action.

Sincerely yours,



Robert H. Hinckley

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

April 28, 1942

My dear Mr. Nelson:

Reference is made to your memorandum of April 14, 1942, to the Coast and Geodetic Survey and the Civil Aeronautics Administration and others regarding procedure to be followed in procuring commercial automotive equipment during the remainder of the current fiscal year and until further notice. Recent transactions with the Procurement Division, Treasury Department, in purchasing automotive cars and trucks for these agencies resulted in delays of several months before this essential equipment was received, which seriously hampered their war effort. For many of the purchases the cost of individual items was some \$200 to \$400 in excess of that which would have resulted had these agencies made these purchases using their own existing facilities.

The Coast and Geodetic Survey and the Civil Aeronautics Administration are engaged in essential war activities. This has been recognized by the War Production Board in that these bureaus have been placed in the same classification as the Army, Navy and Maritime Commission with respect to War Production Board regulations for the procurement of equipment and supplies. It is my understanding that your organization has assigned definite quotas of automotive equipment which may be purchased during this fiscal year and for fiscal years 1943 and 1944, based on estimated needs as reported to you by these two organizations.

It is believed that a request directed to you for the government exemption permit Form PD-322 for individual purchases of commercial automotive equipment allowing the same procedure as outlined in paragraphs 2, 4 and 7 of your memorandum by either of these agencies without recourse to the Procurement Division and the issuance of this certificate directly to these organizations so that they may make the purchases through their own organizations will facilitate delivery and otherwise be more economical and efficient. It is intended that each of these organizations would make the necessary reports to you through their Washington offices without going through the Procurement Division and you would be able to control quotas of commercial vehicles assigned to these designated agencies.

(2)

It is requested, in order that the Coast and Geodetic Survey and the Civil Aeronautics Administration may effectively and expeditiously prosecute their war activities, that the instructions contained in your memorandum of April 14 be amended so that these organizations will not be required to purchase commercial automotive equipment through the Procurement Division but may make the necessary purchases through their existing facilities and make the necessary reports directly to your office.

Sincerely yours,

Robert H. Hinckley

Mr. Donald H. Nelson,
Chairman, War Production Board,
Washington, D. C.

6745 473 72 127

Reader's Digest

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MAY 1942

That's How They Got Nucky Johnson

By

Jack Alexander

WHEN agents of the U. S. Bureau of Internal Revenue concluded their amazing five-year investigation of rackets in Atlantic City, they summarized their findings in a detailed report to Secretary of the Treasury Morgenthau and Commissioner of Internal Revenue Helvering.

Through Elmer L. Irey, Chief of the Treasury Department's Intelligence Unit, this confidential report was made available to *The Reader's Digest*, and supplied the facts for an inside story of graft and political corruption which otherwise could not have been told.

IN 1936, Enoch L. Johnson was sitting pretty. He had been Republican boss of southern New Jersey for decades and his constituents, some admiringly, some despairingly, said nobody would ever "get" Nucky; he was too powerful.

Atlantic City was the jewel of his domain. Visitors on holiday are its chief means of livelihood, and even its staid citizens agreed that any taint of puritanism would painfully shrivel the crowds on the Boardwalk. And so Nucky ran the place wide open. There were two big businesses in America's most famous resort — the hotels and the rackets. The rackets were the bigger. The Boardwalk hotels were in the red and 10 of 14 banks had failed, but gambling, the red light district and minor rackets grossed \$10,000,000 a year.

Of this, \$250,000 a year went to Nucky. Every cop held his job through Johnson. He personally picked the county board and the judges. The sheriff who supervised

the choosing of jury panels was his brother Al. Enoch L. Johnson Booster Clubs in every precinct delivered half the county's votes; in a pinch, he could always swing an election with floaters.

It was a perfect setup.

No public road or building contract could be let without first seeing that Nucky was taken care of. Not a horse-race betting room, brothel, gambling casino, numbers banker or petty racketeer could operate without "cutting in" the boss. In magnitude these rackets, daily shaking down tens of thousands of citizens and visitors to the famous seashore resort, compared favorably with those of Al Capone in his prime.

Technically, the Atlantic City system was a beautiful thing to behold. There were none of the bloodstains that blotch most racket landscapes. Racketeers shoot only when outsiders try to "muscle in," or when they get into competition with each other. In Atlantic City,

if a New York or Chicago racketeer set up a casino or bordello, the local lads merely complained to the police vice squad, which drove the interlopers out of town. And there was no unseemly competition. When the numbers men started an undignified cut-rate war in 1935, Johnson quickly cracked down. He made them set up a cooperative syndicate with a central office in the Little Belmont Hotel. Each numbers banker put his daily "take" into the pool; profits were equally divided at the end of the week. Each contributed \$150 a week for "ice." Every Monday a "bagman" delivered the ice, \$1200 in cash, to Johnson.

Another bagman delivered \$2880 from the horse-betting rooms. A third brought in the ice from eight houses of prostitution — \$50 a week from each madam in winter and \$100 in summer, when trade was brisker. The bagman for the bordellos was Undersheriff Raymond R. Born, a subordinate of Nucky's brother.

For 25 years Nucky's ostensible income was \$6000 a year as County Treasurer. Yet he lived with riotous extravagance. He was drunk four nights out of five and slept regularly until four in the afternoon. The tall, bald, fiftyish man was a conspicuous figure in the cabarets of Atlantic City and New York, drinking only champagne and 18-year-old brandy, and flinging \$100 tips around.

Johnson lived in a beach-front villa and a suite in the adjoining Ritz-Carlton Hotel — rental, \$5200.

He kept four 16-cylinder automobiles, a large staff of servants including a valet-bodyguard, and a succession of flashy mistresses. For the occasional use of his No. 1 blonde he leased a Central Park South apartment in New York, at \$2200 a year.

For a long time the Treasury had been receiving complaints that income tax evasion was rife among the resort's underworld barons. Now Secretary of the Treasury Henry Morgenthau, Jr., had given personal orders to clean up the situation. So in November 1936, at the direction of their Chief, Elmer L. Irey, Intelligence Unit Agents William E. Frank and Edward A. Hill went to Atlantic City and began quietly poking around.

The government income tax investigators, seasoned by a series of prosecutions that had landed scores of big-time racketeers and crooked politicians in jail, were accustomed to tough cases. But this one, they soon learned, was unique. They found Atlantic City wide open. Nobody suspected their identity. They frequented horse rooms and played the numbers. They trailed Johnson on his binges, and they identified by their auto license plates the cops and racketeers who visited his villa.

THE agents thought they could clean up the case in a year. Actually, it took them five years. Ledgers and canceled checks had been the basis for most income tax prosecutions; there weren't any in

Atlantic City. The immense racket industry was operated on a word-of-mouth basis, with all transactions in cash. Neither Johnson nor his satellites had bank or brokerage accounts. Numbers game bankers burned their slips at the end of each day's business. The horse rooms did the same. So it was through all the rackets — mountains of graft and corruption, but not a pebble of proof.

Even worse, there was a community-wide conspiracy to shield Nucky. Time and again, racket underlings went to jail rather than reveal the simplest fact about the boss. They knew that if Nucky fell their easy-money days would be ended. Perjury, deceit, jury-fixing, lack of cooperation even from reputable citizens were the rule. Adverse court decisions wiped out the work of months. It seemed at times that the prosecution of this flamboyant grafter must fail.

But the Intelligence Unit agents plugged on, with relentless thoroughness. There were never more than eight of them. More often there were only three, and a stenographer or two. They labored 12 to 18 hours a day, with no vacations.

Agent-in-charge William E. Frank decided to base his case on proving graft in four major directions — (1) public contracts, (2) the vice racket, (3) the numbers racket and (4) the horse-room racket. The agents thought that indictments and jail sentences

RACKETS similar to those uncovered in Atlantic City are still permitted to exist, in some degree, in many communities where citizens are not alert to their civic duties.

Such rackets, which divert a shocking proportion of a community's income into the hands of racketeers, are an intolerable drain upon the financial lifeblood of the nation's gigantic war effort.

For that reason the inside story of this case — one of the most notable investigations in the history of the Bureau of Internal Revenue — has unusual significance at this time.

Henry Morgenthau Jr.
Secretary of the Treasury

might loosen the racketeers' tongues, persuading them to testify about their graft payments to Johnson, the agents' real quarry.

After five months of staying under cover, the federal men began calling in underlings for interrogation. That same day, a nervous little man rang the doorbell at Johnson's villa. Ushered into the boss's presence, the visitor said: "Listen, Boss, that man who comes around once a year on March 15, that man with the whiskers — " "Well?" Johnson growled. "They are in town," said the man, and put on his hat and went out.

Johnson assigned police detectives to shadow the agents, and stationed a detective near the entrance to the federal grand jury room to let government witnesses know they were recognized when they came in to testify.

UNLIKE the racketeers, the contractors who did public jobs had to keep books and use banks. A checking job in the stifling basements of two closed banks showed that Morrell B. Tomlin, a favored road builder, had deposited \$1,654,590 in seven years. Yet he had never filed an income tax return. His father, John Tomlin, a county freeholder, had banked \$561,560 in three years, reporting only a nominal net income.

When the Tomlins refused to admit paying part of their profits to Johnson, their prosecution for tax evasion was recommended and they were granted a hearing in Washington before final action on their case was taken. Father and son came in threadbare clothing and pleaded poverty. The agents produced a newspaper photograph which showed the elder Tomlin, clad in evening clothes, at a political banquet a few nights before. They also proved that he owned 30-odd parcels of good Atlantic City real estate and \$30,000 worth of securities. The Tomlins were indicted, but they refused to talk about graft.

Three partners who had the city garbage removal contract were more talkative. All had cheated on their income taxes and two admitted having paid \$10,000 a year to Johnson.

The only large construction job in Atlantic City for years had been a \$2,400,000 railroad terminal. The books of Anthony P. Miller, Inc., the builders, disclosed they had paid

a \$60,000 "legal fee" to one Joseph A. Corio in 1935. And Corio, in his 1935 tax return, had listed his gross income at only \$20,800. He was a Common Pleas judge and a creature of Nucky's. The agents called on him and asked about that \$60,000 "fee." Corio said he had spent \$40,000 on "business expenses"—office rent, electricity, clerk hire.

When requested to itemize the expenses, Corio flew into a first-class judicial rage and roundly scored the agents' "impudence." This only intensified their interest in Corio's affairs. And now they got their first "break." The bank he dealt with was the only one in Atlantic City which kept a photographic record of all checks. In a few days they confronted Corio with evidence that he had spent nowhere near \$40,000 in 1935. The judge changed his tune; he wanted to "settle the thing," and "get it off his mind." But the agents refused; either he would fully explain his expenditures, or charges would be filed. Corio was indicted, and straightway went to a sanitarium, suffering from a convenient nervous breakdown.

Months after he came out he admitted that \$28,000 of the money had been paid to Johnson as graft. But Johnson, who had made some unwise realty investments in Boardwalk property, was able to report a bona fide net loss of \$56,000 in his 1935 return; the proved garbage removal and terminal graft payments totaled only \$48,000; therefore they

did not, in themselves, establish a tax evasion case against him.

THE AGENTS next took up the vice racket. Few of the madams had bothered to file tax returns. How to prove their income without benefit of records? The Treasury men devised a homely bookkeeping system of their own.

At the laundry which the bordellos patronized, the agents carefully checked on the weekly poundage of linen. By accurately weighing a single towel and doing some division, they were able to tell how many units were used up in each establishment. Each unit stood for a visit from a customer and the prostitute's standard honorarium was \$1, of which she retained 50 cents. The rest was simply multiplication, followed by subtraction for operating expenses.

"Well, you've got the straight figures, all right," one of the bewildered madams conceded. She confessed to cheating on her income tax and, equally mystified, the others followed suit. But the sublime confidence that Nucky would take care of everything remained unshaken; despite the threat of a stiff prison term, the madams kept on swearing they had not paid any graft.

LIKE a prizefighter who lands his Sunday punch repeatedly only to see his opponent stand there grinning, the Treasury's little deputation next jabbed at the horse-room racket. In the back rooms of cigar

stores and bars on the main streets, bets were accepted for tracks in the United States, Canada, Mexico and Cuba. Downstairs, the 50-cent and dollar betters were accommodated; upstairs were rooms for women and for the \$2-\$10 players. The joints held from 100 to 750 players. Some of the tonier ones served tea and coffee at 4 o'clock, on the house.

The agents knew that business was booming, and the horse-room proprietors—Doc Cootch, Wallpaper Willie and the rest—reflected their prosperity in flashy clothes and expensive cars. All were reporting incomes of from \$3000 to \$5000, obviously faking, yet no assets could be found recorded in their names.

The agents offered the horse-room operators informal hearings on their income tax liabilities, hoping to gain damaging admissions. The gamblers accepted. The information they gave on their businesses tallied with government estimates—up to a point. Then the gamblers balked, making vague claims of unusual conditions which cut into their profits. The agents were unable to prosecute for tax evasion because few juries would be likely to convict on mere estimates, no matter how well reasoned.

INVESTIGATION next turned to the numbers game. Despite its obvious prosperity, the operators had paid trivial income taxes, or none at all. The numbers lottery is supported almost entirely by the poor. It is the meanest gyp of all.

The investigators decided their best chance was to start at the bottom, with the vendors of the tickets — the "writers." There are 1500 retail stores in Atlantic City; 800 of them were selling numbers tickets. Bets were dimes, nickels, pennies. For instance, customers would buy a 12-cent loaf of bread and take the change in the form of a numbers slip. There was no concealment; the agents, from the window of their apartment, used to watch a collector call at the cigar store across the street, emerge with a sheaf of tickets in his hand and pause for a chat with the cop on the beat.

The storekeepers, it turned out, were mostly sick of the racket. Many of them said they had to write numbers or see their customers trade elsewhere. The job of interviewing 839 writers almost wore the agents' legs out. The Negro district saw Agent John C. Cheasty so regularly that the inhabitants good-naturedly began calling him "Mayor of the North Side," and 222, the number of the agents' office in the Post Office Building, became a favorite bet.

But it was worth the trouble. Scores of writers gladly gave affidavits which supplied an accurate picture of the "bankers'" gross take. Two more items were needed: the banks' expenses — rent and payroll — and the money paid out to winners. The bankers were called in and gave reasonable estimates of their overhead expenses. On hits, they estimated paying out anywhere from

50 to 60 percent of their take. The agents wondered. At headquarters night after night, with plenty of sharpened pencils and coffee, they covered reams of paper with calculations based on mathematical formulas of chance and probability. If they could prove that not nearly this amount was paid out, their tax-evasion cases became far stronger.

The agents submitted their final figures to an eminent mathematician in Camden and to a government statistician. The experts placed the probable percentage paid out at 46.4 — instead of 50 to 60. But a detailed study of hits actually paid out over more than three years indicated that the true laws of chance were not allowed to operate, that some form of fixing was employed. The actual amount paid out had been only 35 percent. Obviously the numbers men were making far greater profits than they reported, and the government had ample proof of tax evasion.

In two and a half years of tedious jigsaw-puzzle work, the agents had questioned more than 2000 persons and had scores indicted. Yet none of those had cracked, and there was no legal proof of large graft payments to Johnson. Something had to be done to shake the mob's almost religious belief in the Boss's magic ability to thwart the law.

AT CAMDEN, in May 1939, the government opened a court campaign to convict the racketeers on income tax evasion charges and

prize them, with stiff jail sentences as the alternative, to admit paying Johnson graft. This difficult court battle was undertaken by a special prosecutor, Joseph W. Burns, a brilliant young assistant in the Attorney General's office. From now on, in an impressive demonstration of cooperation between government departments, Burns was to handle 21 trials and 18 contempt hearings. He was the government's swing man for the rest of the investigation.

The first numbers banker to go on trial was convicted on June 7. He was fined \$2000 and sentenced to three years. The verdict demonstrated that Johnson's underlings could actually be convicted; and the government, in making an income tax case stick without benefit of records, had set a legal precedent. Two other bankers were soon behind the bars. But, confident that Johnson's influence would win early paroles for them, they went willingly to jail rather than come clean about Nucky.

Attorney Burns and the Intelligence Unit agents next resorted to the grand jury inquiry and use of the potent contempt-of-court weapon. As usual, the horse-room racketeers, the numbers men and the bordello madams all refused to talk about graft payments, even when cited for contempt.

The government soon found out why. Two bookies had quietly pleaded guilty. They were serving four months' sentences in the Mays Landing jail, where friendly Sheriff

Al Johnson let them run their horse rooms by remote control and order their meals from their favorite restaurants. When Undersheriff Born, bagman for the bordellos, was convicted, he got only a year-and-a-day sentence. In underworld jargon, he could do it "standing on his head." He grinned derisively at the government prosecutors and didn't even appeal.

The grand jury achieved nothing except seven citations for contempt and five indictments for perjury. Perjury on a wholesale, organized scale was wrecking the investigation. Yet on technical grounds, two of the perjury indictments were quashed. The government was in the agonizing position of being right, but unsuccessful because a district judge had made an incorrect legal ruling — later reversed by the Supreme Court.

A Negro numbers banker, Leroy B. Williams, went on trial, represented by a Negro attorney, Isaac Nutter. Throughout the trial Nutter clutched a rabbit's foot in his pocket and once he "hexed" Prosecutor Burns by dropping a pinch of salt behind him. It must have been a powerful hex, for Williams was acquitted.

Then came a break. Williams didn't pay Nutter's fee. Nutter, thoroughly sore, became an ally of the government. He furnished valuable inside information.

And sex unexpectedly came to the government's aid. On a plea of guilty to a charge of income tax evasion

THE READER'S DIGEST

another Negro numbers banker had gone to prison in 1939. His pretty high-yaller wife, who had been an entertainer in a night club he owned, started running around with a numbers banker named Joseph Friedman. Friedman, a fragrant character whose own wife was an Atlantic City madam, not only stole the high-yaller gal but also her husband's bank. Nutter told the husband and, in revenge, the convict went before the grand jury and spilled the whole numbers syndicate story, graft and all. Then a second Negro banker talked.

The stories these two told about graft payments went straight to the point, but no jury would believe their assertions if all the other numbers bankers contradicted them. Another conference in Washington resulted in a decision to pound away at the bankers as a group. Finally 14 numbers operators were indicted on a charge of conspiring to commit perjury before the grand jury. They went on trial at Camden in April 1940.

THE EVIDENCE against them was overwhelming—but the jury disagreed. At a retrial the second jury voted for outright acquittal! Prosecutor Burns was suspicious. Sure enough, an investigation by the Intelligence Unit agents confirmed tips about jury tampering. The government convicted the jury tamperers but, ironically, was unable to retry the 14 perjury conspirators because of the constitutional guarantee against double jeopardy.

The jury fixing was strong indication that Nucky Johnson was becoming frantic. The investigation had swept an Atlantic City reform group into office and the new mayor, Thomas D. Taggart, Jr., was raiding the joints. The numbers syndicate ceased operation entirely, the bordello and horse-room trade dropped off to a whisper. While sources of graft thus were drying up, fines and defense counsel fees were mounting. Many of the boys were grumbling.

Among the grumblers was Austin Clark, who had gone to prison relying upon Johnson's assurance that he would soon be paroled and that his business would be waiting intact when he came out. The parole hadn't arrived and Clark's numbers bank had been hijacked by loving colleagues. Outraged, Clark joined the ranks of bankers who spilled; and so did still another. That made four converts out of 14.

Then Friedman was convicted of income tax evasion, and sentenced to 10 years. Evidently the jury-fixing game was up. Immediately the attorney for another banker, Jack Southern, offered to plead his client guilty on three indictments in exchange for a one-year sentence. The government turned down the bargain. That night Southern visited Johnson at the villa for a showdown. The boss laid his cards on the table. Southern, he agreed, faced "a lot of time," but he, the once all-powerful boss, could do nothing for him.

It was a staggering admission from

THAT'S HOW THEY GOT NUCKY JOHNSON

One invulnerable boss. Nucky could no longer protect his own. The racketeers had lost their trump card.

SOUTHERN pleaded guilty and took his chances. He got five years and a \$3000 fine. Singly and in groups, the holdouts straggled in, pleaded guilty and talked freely about graft payments—the numbers men, the bookies and the madams. Now it would be Johnson's word against that of his whole army—if he chose to deny getting the "ice." The trial of Johnson, the final chapter in an investigation now coming to the end of its fifth year, was set for July 14, 1941.

The government's proof of graft was so convincing that Johnson was forced to admit having received it, in order to lend the slightest credibility to his phony defense that he had spent much of it for political and charitable purposes and was entitled to large deductions. It took a jury only five hours to bring in a verdict of guilty. On August 1, Circuit Judge Albert B. Maris sentenced Johnson to serve 10 years in Lewisburg Penitentiary and pay a fine of \$20,000. As a final, gay fillip Nucky Johnson married his No. 1 blonde, Flossie Osbeck, and celebrated with

a champagne party on the night before he was sentenced.

All told, the amazingly dogged investigation, in the face of baffling difficulties, resulted in the conviction of 47 persons. The government is suing to recover \$1,000,000 in additional taxes and fraud penalties. The investigation cost \$200,000.

During all the years the agents had been in town, Nucky Johnson had refused ever to see them. But the educational effect of the Intelligence Unit's work was not lost upon him. When Louie Kissell, Johnson's valet-bodyguard, was implicated in jury fixing he was arrested at the villa by Agent Snyder and a deputy U. S. marshal. While being taken to an automobile, Kissell broke away and ran back to the yard, shouting, "Boss! Boss!"

A pair of French doors on the second floor opened and Johnson stepped out on a balcony.

"Boss," cried Kissell, raising his handcuffed arms in outraged protest, "they can't do this to us! Tell 'em, Boss, they can't do this!"

Johnson somberly looked down.

"Louie," he said sadly, "the government can do anything," and walked back through the French doors.



The National Archives
Washington, D. C.

NOTES CONCERNING THE FRANKLIN D. ROOSEVELT LIBRARY AT HYDE PARK, N. Y.

Papers recently transferred to the Franklin D. Roosevelt Library by the President include White House files of correspondence relating to the following subjects: modification of the Volstead Act and repeal of the Eighteenth Amendment, 1933, administration of the National Industrial Recovery Act, and proposals for its restitution, 1933-37, veterans' compensation legislation, 1933-39, regulation of radio broadcasting, 1933-40, the "pump-priming" program of 1938, and the President's proposal of April 14, 1939, for a European peace. Also received was part of one of the President's personal files consisting of letters received from the general public commenting on the radio addresses made by him from October 23, 1940, to December 9, 1941.

Dr. John S. Curtiss, Assistant Archivist, has been granted leave of absence from the Library for the duration of the war to work in the Office of the Coordinator of Information, Washington. Dr. Curtiss will serve in the Division of Special Information as an expert on Russian affairs.

May 1, 1942

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1942

TO Ferdinand Kuhn, Jr.

FROM Herbert Merillat

EDITORIAL OPINION
ON THE HOME FRONT:
THE SEVEN POINTS

Good in principle, disappointing in detail -- that is the typical editorial judgment on the President's seven-point anti-inflation program. A few papers, including such eastern metropolitan leaders as the Philadelphia Inquirer and Baltimore Sun, gave the President's message to Congress and radio address high praise as a courageous and realistic program to combat inflation. Most commentators throughout the country give full support to the President's thesis that all seven points are interdependent and must be put into effect without delay. At the same time, however, they feel that the President's recommendations are not specific enough, particularly in the fields of wage-control and taxation. Few have echoed the despairing tone of the New York Times, which feels that the President's program utterly fails to come to grips with the inflation problem.

In the view of most editorial writers the two gravest shortcomings of the President's plan of attack are: (1) the failure to recommend effective legislative control of wages, and (2) the failure to propose taxes on low incomes or compulsory savings to drain off swollen mass purchasing power which threatens to break down the dams of price control.

Papers in the Midwest and South have been especially critical of the President's insistence on retaining the basic 40-hour week and on leaving wage stabilization to administrative rather than legislative action. Editorial comment from those sections has been fairly cautious and reserved, but there is a noticeable undertone of pique that the President should propose to lower the ceiling on farm prices by legislative action and yet oppose legislative restrictions on labor. In the words of the Greenville (South Carolina) News: "It certainly seems logical to hold that if action which would decrease the earnings of any industrial worker is to be opposed, a similar attitude should be taken against action which would decrease the earnings of the farmer."

The Seven Points

1. Taxation. "We must tax heavily ... and keep personal and corporate profits at a reasonable rate."

We agree, say the editorial writers, that no one

should be allowed to make excessive profits in this war, but they add that taxes on corporate profits and high bracket incomes have nothing to do with checking inflation. The only taxes that will effectively help to curb inflation are taxes that hit the mass purchasing power of the nation. The purchasing power which threatens to bid prices up, they say, is found in the three-quarters of the population who are not in the income tax base. Lower income tax exemptions, or a sales tax, or compulsory savings, or some combination of these, is necessary to close the inflationary gap. In failing to recommend such measures, say his editorial critics, the President has neglected the basic method of combating inflation.

Commentators are generally agreed that the proposal to limit individual incomes, after taxes, to \$25,000 was added as political sweetening to a recipe for inflation-control which called for sacrifices from various sections of the public. Reaction has been mixed. Many writers, while pointing out that the income ceiling has little significance as a revenue measure or a check on inflation, think it may be a desirable symbol of the sacrifices which rich and poor alike must make for the duration. Others reject the proposal violently even as a symbol and attack it as a pointless, revolutionary measure which would serve no good purpose and undermine the capitalist system.

2. Price Control. "We must fix ceilings on the prices which consumers, retailers, wholesalers and manufacturers pay for the things they buy, and ceilings on rents for dwellings in all areas affected by war industries."

The O.P.A. order fixing prices in general has been accepted by the press with few complaints, but with definite reservations. A general price ceiling is regarded as a necessary item in the anti-inflation program, but editorial writers have renewed their insistence that wages and farm prices be strictly controlled by legislative action. It is widely recognized that the sudden freezing of a multitude of prices will result in many inequities which must be removed. Many writers show particular solicitude for retailers who must replenish stocks at inflated wholesale prices which will cut down or wipe out their margin of profit.

Most editorial criticism is of details of the plan. Some influential papers and writers, however, feel that the general price-pegging, without taxes to sop up purchasing power, is an oppressive measure and represents a major blunder on the part of the Administration. The Administration, they say, relies too heavily on price controls to do a job which only taxation can effectively

do. In the words of the New York Times: "By imposing a blanket ceiling on prices at the same time as it fails to withdraw excess consumer purchasing power from the nation, the Administration has undertaken an 'anti-inflation program' that threatens the maximum of complications, disruptions and Government controls with the least promise of successful results."

3. Wage Stabilization. "We must stabilize the remuneration received by individuals for their work."

As already noted, the President's failure to propose a legislative formula for stabilization of wages is the most universally criticized feature of his program. Farmers, management, income taxpayers, landlords, merchants -- these, the editorial critics point out, are to have their sacrifices written into law. Labor, on the other hand, is to be held in check only by administrative action, and the press is far from trusting the Administration, particularly the War Labor Board, to impose strict wage controls.

4. Parity Farm Prices. "We must stabilize the prices received by growers for the products of their lands."

Most papers have praised the President for his

courage in defying the farm bloc by proposing that "the ceiling on farm prices ... should be set at parity." This is one recommendation which meets a long-standing demand of the press in general. More than any other of his proposals, it impressed editorial writers with the seriousness of the President's purpose to check inflation. Papers in the farming regions, however, show little liking for a lower ceiling on farm prices as part of a program which, in their eyes, fails to deal equally strictly with labor.

5. War Bonds. "We must encourage all citizens to contribute to the cost of winning this war by purchasing War Bonds with their earnings ..."

The press is 100 per cent behind the drive to increase sales of War Bonds. There is a widespread feeling, however, that the Administration is relying too heavily and too hopefully on voluntary bond purchases to close the inflationary gap. Even if the sales campaign is remarkably successful, say many commentators, the public will retain billions in purchasing power which can be immobilized only through compulsory savings or much heavier taxes on low incomes. The list of editorial advocates of compulsory savings continues to grow.

6. Rationing. "We must ration all essential commodities of which there is a scarcity."

There is almost complete editorial agreement that rationing of scarce goods is an essential and democratic feature of an anti-inflation program.

7. Installment Buying. "We must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations."

This proposal has provoked little editorial comment. Those writers who mention the matter agree that it is a desirable measure, but of minor importance.

To summarize: The press thinks the President has laid down a reasonable and comprehensive general plan of attack on the inflation problem, but has failed to recommend adequate specific measures to achieve success. It is felt that compulsory sacrifice on the part of labor and those who have new purchasing power must be written into law if the battle against inflation is to be won.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 31 - Aircraft Despatched
- for week ended April 28, 1942.

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

May 1, 1942.

STATEMENT NO. 11
AIRCRAFT OPERATIONS FROM THE UNITED
STATES DURING WEEK ENDING APRIL 20TH

<u>TYPE</u>	<u>ORIGIN</u>	<u>ARRIVAL POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT HOURS FROM THE CANADA</u>
<u>WILL</u> Albacore	U.K.	U.K.	4		
<u>BOEING</u> B 17E Fortress II	U.K.	Canada en route		2	
<u>GENOVA</u> AT 17 Crane IA	Canada	Canada			5
<u>CONSOLIDATED</u> B 24D	U.K.	Canada en route		1	
<u>LOCKHEED</u> L4 Super II	U.K.	Canada en route		7	
<u>CURTIS</u> Kittyhawk IA	New Zealand S. Africa	Wellington Durban	13 8		
<u>LOCKHEED</u> Hudson 12A A29A AC 151 Ventura	U.K. U.K. U.K.	U.K. Canada en route Canada en route	3	11 19	
<u>GLAN WATYH</u> Baltimore	Russia	Baerah	16		
<u>NORTH AMERICAN</u> B 25D Mustang	U.K. U.K.	Canada en route U.K.	14	2	
<u>STEARMAN</u> PRO	Canada	Canada			21
TOTALS			58	42	26

British Air Commission

May 1st, 1942.

121

Treasury Department
Division of Monetary Research

Date.....5/2/42.....19

To: Miss Chauncey, Room 285

From: Mr. White

This probably does not have to be
called to the Secretary's attention.

MR. WHITE
Branch 2058 - Room 214½

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FD 835.51/1496

May 1, 1942.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of despatch No. 4679 dated April 8, 1942 from the American Embassy, Buenos Aires, Argentina, concerning renewal by the Argentine Government of the loan of 40,000,000 Swiss francs from a Swiss banking syndicate.

Enclosure:

/From Embassy, Buenos Aires,
No. 4679, April 8, 1942.

Buenos Aires, Argentina, April 8, 1942.

No. 4679

Subject: RENEWAL BY THE ARGENTINE GOVERNMENT OF LOAN OF 40,000,000
SWISS FRANCS FROM A SWISS BANKING SYNDICATE

CONFIDENTIAL

The Honorable

The Secretary of State,

Washington.

Sir:

Referring to the Embassy's despatches No. 2001 of April 22, 1938, and No. 505 of February 27, 1940, in regard to a two-year loan of 40,000,000 Swiss francs obtained from a Swiss banking syndicate, I have the honor to report that this loan, which was renewed in 1940, has been renewed for a further period of two years, i.e., until May 5, 1944. The interest rate, according to announcements published in the local press on March 27, has been reduced from 3-1/2 to 3-1/4%. The loan, which is in the form of Treasury bills, will be payable at the rate of 4.46 francs to the dollar, which, at the existing rate, is favorable to Argentina by several percent. The Credit Suisse, it is reported, is being paid 400,000 Swiss francs as a commission.

It is understood that in early 1940, Doctor Ceferino Alonso Irigoyen, then Financial and Economic Counsellor to the Argentine Embassy in Washington and now Under Secretary of Finance, was unable to obtain funds in New York with which to pay these bills when they matured that year (it was reported that the Swiss banking syndicate then asked for payment, although it later agreed to renew the loan). The ability to renew the bills at a reduced interest rate at this time is, of course, evidence of the improved foreign-exchange situation. Reference is made in this connection to the Embassy's despatch No. 4504 of March 20, 1942, covering the 1941 annual report of the Central Bank, which shows a "positive balance of payments" in 1941 of 472 million pesos.

Respectfully yours,

For the Ambassador:

Edward L. Reed,
Counselor of Embassy

Copy to Legation at Bern

File No. 851

JWG:cec

Copy:bj:5-1-42

C
O
P
Y

124

Buenos Aires, Argentina, May 1, 1942.

No. 4926

Subject: MONTHLY REVIEW OF DEVELOPMENTS IN ARGENTINA REGARDING
THE FREEZING OF AXIS ASSETS AND OTHER CONTROL MEASURES.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,

Washington.

Sir:

With reference to the Department's circular telegram of April 7, 9 p.m., requesting monthly reviews of developments in Argentina concerning the freezing of Axis assets and other control measures, I have the honor to report the following:

In a despatch dated April 4, 1942, the Embassy summarized the then-existing situation here with respect to cooperation in the severance of commercial and financial relations with the Axis countries. There have been no important developments in this field since that time. The only freezing measure adopted by Argentina thus far was that provided for by the Central Bank's circular No. 262 of December 11, 1942, which suspended transfers of funds and securities between Argentina and Japan and froze accounts of persons and firms domiciled in Japan (Embassy's despatch No. 3744 of December 24, 1941, and previous telegrams).

Within the last several weeks, it has come to the attention of the Embassy that the local representative of the Domei News Agency has been obtaining funds from the Banco de la Provincia de Buenos Aires for the expenses of his office, as well as for charges for the transmission of news; that these payments have been authorized by the Central Bank; and that the Central Bank considers that it is obliged by standing instructions of the Argentine Government to authorize the release of funds for such purposes inasmuch as they are regarded as funds needed for "legitimate purposes" irrespective of the factor of Axis propaganda (Embassy's despatch No. 4873 of April 24, 1942).

As to other measures, a Government decree (No. 110,790) of January 8, 1942, reported in the Embassy's despatch No. 3865 of January 13,

1942, purported to give the Central Bank a greater control over the transfer of payments abroad, including the granting of control over "internal movements of funds which may have a direct or indirect relation" to transfers abroad. However, whenever this Embassy or the British Embassy has referred to this decree in conversations with officers of the Central Bank and has suggested that the decree be invoked to control movements of funds relating to such Nazi activities as the notorious El Pampero, there has consistently been the reply that the Central Bank does not consider that it can act in matters of this kind without the Government's express authorization. About the middle of April, the Central Bank even declined to take any action against the sale of certain United States securities which gave every indication of having been confiscated in the occupied countries of Europe (Embassy's despatch No. 4908 of April 30, 1942).

On April 9, 1942, the Embassy made representations at the Foreign Office regarding the remitting of certain funds to France outside of the Franco-Argentine payments agreement and in violation of assurances previously given (Embassy's despatch No. 4874 of April 27, 1942), and on April 23 the Central Bank stated that no further remittances had been authorized. However, it was learned yesterday through the British Embassy that certain banks have recently been informed orally by the Central Bank that they may make remittances to France in amounts of not more than 10,000 pesos (presumably outside of the payments agreement). The Central Bank has confirmed this but stated that the banks authorized to make such operations were told that they would have to employ the privilege sparingly. Notwithstanding the small amounts involved, the measure constitutes another violation of the assurances previously given, and while there may be legitimate needs for family remittances, provision should have been made for these from the large accumulation of French francs, most of which were apparently used for other purposes.

Representations were also made at the Foreign Office on the same date (April 9) regarding the release of 250,000 pesos from a blocked account of the Reichsbank in order to enable the "Inag" Fabricas Reunidas de Utiles Sanitarias, a subsidiary of the Siemens Company of Germany, to repay certain bank loans here (Embassy's despatch No. 4690 of April 9, 1942). An aide memoire was furnished the Foreign Office in each of these two cases and copies were sent to the Central Bank.

More recently it has come to the notice of the Embassy that the Province of Buenos Aires, through the Banco de la Provincia, recently made a substantial remittance to Switzerland for payment to German interests on a Swiss-franc loan of the Province. It having appeared that there were various similar instances, a memorandum in the matter has been sent to the Foreign Office pointing out the inconsistency of these transactions with Resolution V of the Rio de Janeiro Conference (Embassy's despatch No. 4925 of May 1, 1942).

As to the application of financial control to undesirable persons and to persons and firms on the Proclaimed List, there is no evidence that the Government or the Central Bank is distinguishing between such

-3-

parties and other parties. Although Executive Decree No. 110,791 of January 8, 1942, provided that any person found obstructing the exercise of the foreign-funds control by the Central Bank should be removed to a designated point within the country, unless he should leave the country, and gave the Ministry of the Interior broad powers for enforcing the measure (Embassy's despatch No. 3880 of January 15, 1942), there have not come to the attention of the Embassy any cases in which the decree has in reality been enforced.

There are no interventors appointed by the Argentine authorities for the management of controlled firms.

With reference to the concluding paragraph of the Department's circular telegram of April 7, 9 p.m., and referring also the Department's telegram No. 553 of April 20, 11 p.m., arrangements have been made for the services of a confidential investigator for work in the field of Axis funds.

In general, the situation with respect to foreign-funds control remains as heretofore. The Central Bank continues to evidence that it wishes to cooperate in a high degree but that its freedom of action is restricted by the Government. As has been previously reported, the Government's position in the matter of financial relations with or for the benefit of the Axis countries is closely connected with its general policy of neutrality, and until that general policy is modified there will probably be little change with respect to financial control. Nevertheless, it is reported from different sources that the Central Bank is pursuing a strict policy in regard to most kinds of remittances to Europe. The Embassy is now awaiting the receipt of figures promised by the Central Bank showing financial remittances to the principal neutral European countries in recent months.

Respectfully yours,

NORMAN ARMOUR

File No. 851
JWG:je

A true copy of
the signed original. (1) j.e.

Copy:bj:5-26-42

MAY 1 1942

Dear Generalissimo Chiang:

I am taking the occasion of the return of Mr. Fox to China to send to you a personal message. The good will and friendship between our two Governments during times of peace have now under the stress of our common war united us as members of the same family fighting side by side for the preservation of those things which we all hold dear.

The American people -- in the armed services, in the factories, on the farms, in offices and in the schools -- are engaged in a mighty effort to bring the present war to a quick and successful conclusion. Our people take pride in the valor and courage of their comrades-in-arms, the Chinese people. We shall not forget that for five years your country -- the first victim of Axis aggression -- has held the Asian front in the struggle for freedom. In the past months, during which my own country has suffered attack from our common enemy Japan, we have had reason even more keenly to realize the strength, ability and courage of your armies and of your people. China is to us a symbol of what can be accomplished by a determined effort and a united national will.

The people of the United States have pledged all their resources to the attainment of victory. Our armed forces and equipment, which are appearing

in increasing strength on the battlefields throughout the world, will grow at an ever faster rate. The growing offensive strength of the United Nations is striking ever more powerful blows at the centers of Axis strength. We are confident that the tide of battle has turned against the Axis and that victory will not long be denied the United Nations. In this drive for victory, China is playing a vital role.

The friendship which links our two countries, born long in the past and now strengthened in the fires of war, is our best assurance for a lasting peace and prosperity based on freedom for the peoples of all nations. I shall do everything in my power to continue to help China, not only now but also during the period of reconstruction.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

Generalissimo Chiang Kai-shek,
Headquarters of the Generalissimo,
Chungking, Szechuan,
China.

n. m. c.
Copies to Dr. W. White

10ah
5/1/42

MAY 1 1942

Dear Dr. Kung:

I am requesting Mr. Fox to convey to you the following personal message from me. Mr. Fox's return to Chungking to continue his duties as American member of the Stabilization Board of China is a further testimony of the spirit of cooperation which has long characterized the relations between the Ministry of Finance and the Treasury of the United States. I appreciate having had Mr. Fox with us. I have had the opportunity to discuss with him the many difficult economic and financial problems which confront China. I can well appreciate the difficulties which face a country which has been continuously at war for nearly five years. If at any time the Treasury and its facilities can be of any help to you, I shall be glad to have you call upon me.

I trust that your health is greatly improved and with kind personal regards, I am

Sincerely,

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

Dr. H. H. Kung,
Minister of Finance,
Chungking, China.

M.H.C.

Copies to Dr. Kung

1esh
5/1/42

May 1, 1943

Mr. Livesey

Mr. Dietrich

Will you please send the attached cable to the American Embassy,
Chungking, "For Alier from the Secretary of the Treasury".

FD:eh

May 1st, 1942

To Adler

From the Secretary of the Treasury

Reference your cable dated April 27, 1942.

1. Treasury and Fox believe, on the basis of information available, that the November 1st agreement should continue in effect. We wish it made clear to the Chinese that the Treasury is prepared to see the full utilization of the funds made available under the April 1st Agreement. We cannot understand from your cable whether or not the Exchange Control Commission or the Chinese Government has any objection to the continuation of the November 1st agreement.

2. With reference to the anticipated depletion of the sterling assets of the Board, if sterling is not available from other sources, Treasury has no objection to the Board using its dollar assets for the purchase of sterling. Treasury is concerned above all that the Stabilization Board should do all possible to help the Chinese war effort.

3. With regard to relations between the Stabilization Board and the Exchange Control Commission, Mr. Fox is returning to China in the near future and, if possible, no decision regarding your proposed new arrangement or any other matter involving the relations between these two agencies should be taken prior to his arrival in China.

ISS/efe

5/1/42

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

Chungking via N.R.

Dated May 1, 1942

Rec'd 8 p.m.

Secretary of State,
 Washington.

489, May 1, noon, (SECTION ONE)

FOR THE SECRETARY OF THE TREASURY AND FOX
 FROM ADLER. WEEKLY ECONOMIC.

(1) Sales of saving certificates April 1,
 April 25 on dollars 16,000,000.

(2) Receipts and expenditures for fiscal
 and calendar year 1941 according to most recent
 but still incomplete data. (All figures given to
 nearest on dollars million) Receipts: taxation
 379, revenues from administration and public enter-
 prises 73, other 876, receipts from loans 8806.
 Expenditures: ordinary 1952, reconstruction 2055,
 extraordinary 2684, emergency orders 2708, balance
 on hand 733. Total 10,131 or 2597 greater than
 estimated. Net revenue 1328, net expenditure 9398,
 net deficit 8070, or, respectively 100 (?) 1864 (?)
 and 1964 more than estimated. Actual revenue except
 vague residual item "other" consistently less than
 estimated. On expenditure side ordinary 436,
 reconstruction 166

-2- #489, May 1, noon, (SECTION ONE) from
Chungking via N. R.

reconstruction 166 and extraordinary 240 less than estimated, respectively, but unbudgeted for emergency orders exceeds these pluses by 1,865. Total borrowing of 8803 is 2,697 more than estimated.

Note;

(a) Several items on both sides ledger obscure.

(b) 1941 receipts do not include land tax collections.

(c) Estimated revenues for 1942, 5089 without estimated yield of land tax would appear much too rosy especially as they are nearly quadruple actual 1941 revenues and as 1941 actual revenues fell short of estimated.

(d) Net expenditures 1941 almost $2\frac{1}{2}$ times actual 1940 about 25% greater than estimated 1941 and about 55% estimated 1942.

(e) Impossible with available data to calculate months military to net expenditures in 1941, a guess estimate based on assumption that "emergency orders" were equally divided between military and non-military expenses would indicate that about 5450 or roughly 60% were devoted to war purposes as

compared with

-3- #489, May 1, noon, (SECTION ONE) from
Chungking via N. R.

compared with about 55% in 1940 and nearly 50 of
1942 estimated expenditures.

Detailed analysis of 1941 receipts and expend-
itures following by pouch.

VINCENT

WSB

LSH

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

Chungking via N. R.

Dated May 1, 1942

Rec'd 5:35 p.m.

Secretary of State,

Washington

489, May 1, Noon (SECTION TWO)

(One) In the last week the executive Yuan:

(A) Announced scheme whereby Government; Kuomintang, and educational officials in Chungking and environs will be able to buy specified amounts of necessaries at substantially less than market prices. Scheme which is a logical extension of rice allowance scheme already in operation is to go into effect in about a month. Something of this nature had become essential to protect officials with fixed incomes against ravages of inflation.

(b) Recommended appropriation of a further CN dollars 250,000,000 to be allocated to provincial governments most of whose sources of revenue have been taken over by Central Government.

(Two) War time consumption tax went into effect on April 15. This Central Government tax corporative provincial transit and miscellaneous taxes and will be levied on goods not already taxed unless specifically exempted. Rate of tax is 5, 10, 15, and 25% on necessaries
non-necessaries

-2- #489 May 1, 1942, from Chungking via N. R.

non-necessaries, semi-luxuries and luxuries, respectively. (SECTION TWO)

It will be collected by the Maritime Customs and is officially estimated to yield CN dollars 250-300 million which is probably too high. Tax reflects progressive centralization of Chinese revenues; abolition of many provincial nuisance taxes a step forward fiscally and economically.

(END OF MESSAGE)

VINGENT

WSB

Miss Chauncey,

To be placed in Secretary's file.

F.A.Southard, Jr.

BR

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

Quito

Dated May 1, 1942

Rec'd 6:32 p.m.

Secretary of State,
Washington.

352, May 1, 11 a.m.

FOR HARRY WHITE TREASURY FROM GLASSER

Minister of Finance has agreed to termination of my assignment in Ecuador as of May 15. Friedman may thus be transferred to public 63 as of that date. I have plane reservation leaving Ecuador May 19. Cable if satisfactory.

LONG

RR

May 1, 1948

Mr. F. Livesey

Mr. Dietrich

Will you please send the attached cable to the American Embassy, London,
"For Cassidy from the Secretary of the Treasury".

FDI

To L. V. Casaday
American Embassy
London, England

From The Secretary of the Treasury

Please send by air pouch "Consumer Rationing during March" and "The Black Market in Food Products", listed in recent weekly summaries of reporting activities. Until further notice send by air pouch all such reports having a bearing on rationing as soon as they are available.

EJK-ef 4/30/42

TELEGRAM SENT

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

May 1, 1942

4 p.m.

AMEMBASSY

LONDON (ENGLAND)

1901

TO CASADAY FROM THE SECRETARY OF THE TREASURY.

Please send by air pouch "Consumer Rationing
during March" and "The Black Market in Food Products",
listed in recent weekly summaries of reporting activities.
Until further notice send by air pouch all such reports
having a bearing on rationing as soon as they are avail-
able.

HULL
(FL)

FD:FL:MLB

Treasury Department
Division of Monetary Research

142

Date19

To: *Miss Channing*

From: *O. G. & Jas* ✓

*not worth calling to
Secretary's attention.*

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FD

May 1, 1942.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of despatch No. 706 dated March 31, 1942 from the American Consulate General, Zurich, Switzerland, transmitting a translation of an editorial in the FRANKFURTER ZEITUNG entitled "Endangered Dollar".

Enclosure:

From Consulate General, Zurich,
No. 706, March 31, 1942.

Copy:ime
5/4/42

By air mail pouch from Lisbon.

No. 706

Zurich, Switzerland, March 31, 1942.

Subject: Transmitting translation of editorial in
FRANKFURTER ZEITUNG entitled "Endangered
Dollar"

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to transmit, in translation, an editorial which appeared in the FRANKFURTER ZEITUNG of March 26, 1942, entitled "Endangered Dollar", with regard to the financial situation of Switzerland as a result of the blocking of Swiss funds in the United States.

Respectfully yours,

Maurice W. Altaffer
American Consul

Enclosure:

Article, as stated.

In quintuplicate.
Copy to the American Legation, Bern.
Copy to the Division of Commercial Affairs.
800/MWA/af.

A true copy of the signed original.

Copy:ime
5/4/42

C
O
P
Y"Endangered Dollar"

(Translation of editorial appearing in FRANKFURTER ZEITUNG no. 156
of March 26, 1942)

As a proof of the manner in which the United States intends to fight for right and freedom, the American Government, in the summer of 1941, not only froze assets in America of hostile Axis Powers, but also those of neutral European countries, the assets of which are considerably greater. The term "freeze" is, of course, merely a misnomer for the harsher but more pertinent word "confiscate", with the added advantage that it permits those concerned to carry the items in question as assets in their accounts. Of course any illusion as to the ultimate value of these assets exists only in those countries where for various reasons the fiction of the honesty of the Anglo-Saxon policy must be upheld at any price. But, as a matter of fact, this conception rightfully appears to be just as questionable as the hope of a British-American victory.

For Switzerland, this American contravention of law - for this unilateral step in the existing exchange agreement between Switzerland and the United States cannot be designated otherwise - has created a particularly difficult situation. Although Switzerland suffered a capital loss of more than 1 billion francs in its American assets and investments through the devaluation of the dollar, during the first year of the war 9 billions (dollars ?) flowed from the Continent into the "strong box" of the United States. An official indication of the total Swiss assets which have been placed in "safe-keeping" with the Americans is lacking, and in view of the fact that a part of this capital was exported in devious ways, the exact amount will be difficult to establish. Estimates which appear highly probable set the figure at the respectable sum of 5 billion Swiss francs, which includes deposits, shares, bonds, stocks, et cetera. This means that, calculated according to the number of inhabitants, a per capita sum of approximately 1,250 Swiss francs is frozen in the United States, which some day will be claimed by that country as "Switzerland's contribution" to the American cost of waging war for "European freedom".

That this prospect is not readily entertained by those concerned, who include not only Swiss capitalists but also the trade unions with their hard earned membership contributions, is comprehensible, but that does not relieve them from considering how these assets will have to be written off, namely, whether as amortization or as a loss. Of course, as stated, it is largely a question of personal opinion how

high

- 2 -

high the loss risks are estimated and certainly the war barometer plays a very important part. The Zurich tax officials, who need not be guided by the same sentimental considerations as the politicians, have now for the first time assessed this risk. The tax office of the Canton of Zurich, a few weeks ago when the taxpayers were spending sleepless nights filling out their tax declarations, laid down a ruling on this question. Instructions for estimating the loss on American assets permit at this time, that is for the first risk year, a deduction of a 30 percent discount. For every \$1,000 of frozen assets the taxpayer is authorized to consider \$300 as lost. From the standpoint of the tax office, this is certainly a generous offer. It is quite another question whether the tax officials would be prepared to buy from the taxpayers the remaining 70 percent of their frozen assets at this official rate, or at least guarantee these amounts. Fortunately, the tax officials can point out that they are not competent to give any such guaranty and that the taxpayer who had more confidence in the integrity of the American Government and the dollar than in his own Government and the Swiss franc, must not only be responsible for his taxes but also for the exchange risks.

rs/df

Copy:ime
5/4/42

INCOMING CABLEGRAM

Date: May 1, 1942

From: Moscow

Federal Reserve Bank of New York

#22

With reference to your cable of April 24, charge our
account, pay to yourselves \$26,445.14.

(Signed) State Bank of the U.S.S.R.

(Received by telephone from Federal Reserve Bank of New York,
N. Y. 5:50 p.m. May 1, 1942)

ic:vw

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 1, 1942

TO Secretary Morgenthau
 FROM Mr. White

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£61,000
Purchased from commercial concerns	£ 3,000

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

The Canadian dollar discount widened to 12% at the close, as compared with 11-7/8% yesterday.

The Venezuelan bolivar advanced 15 points to a final quotation of .2885.

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

Argentine peso (free)	.2365
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Cuban peso	1/16% premium

The 'free' Swiss franc rose to a new high of .2740, or two cents higher than the quotation of April 28. The 'commercial' Swiss franc remained at about .2331.

In order to increase the Stabilization Fund's gold balance, we purchased \$10,100,000 in gold from the General Fund through the New York Assay Office.

No new gold engagements were reported.

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

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

We made no purchases of silver today.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 142

Information received up to 7 A.M., 1 May, 1942.

1. MILITARY

BURMA. The majority of our forces successfully crossed to the north bank of the IRRAWADDY on the night of the 28th/29th.

RUSSIA. On the MURMANSK Front a seaborne Russian force reported several thousand strong has made a landing behind the German lines on the southern shore of the MOTOVSKI GULF northwest of the mouth of the River LITSA.

2. AIR OPERATIONSWESTERN FRONT.

29th/30th. Over 150 tons of H.E. and incendiaries were dropped on the PARIS factories named yesterday. Several direct hits are claimed. 30th. Twenty-four Bostons, eight Hurricane bombers and eight Whirlwinds escorted by forty-three squadrons of Spitfires attacked docks, aerodromes and a railway centre in HOLLAND and Northern FRANCE and shipping off the coast of BRITANNY where a direct hit was obtained upon one of three destroyers. In addition twenty squadrons of Spitfires carried out sweeps over Northern FRANCE. Six enemy fighters were destroyed, six probably destroyed and seven damaged. We lost seven Spitfires (two pilots safe).

30th April/1st May. 35 enemy aircraft operated against this country. 8 were destroyed by our night fighters over ENGLAND and two over FRANCE, two were probably destroyed and two were damaged.

MALTA. Between 1520/29 and 1145/30 57 bombers escorted by fighters attacked. Aerodromes were hit and two aircraft on the ground were damaged. Our fighters and A.A. destroyed three aircraft and damaged four.

3. HOME SECURITY

30th/1st. Bombing was chiefly over TYNESIDE but was not concentrated. No great damage was done and casualties were not heavy.



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

May 1, 1942.

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

Dear Henry:

The attached is from the British Political
Warfare Executive Weekly German Directive.

Sincerely,

WJ Donovan
William J. Donovan.

Hitler's speech was his first since September, 1939 which actually lowered morale and confidence. The Germans were given discouraging answers or none at all to nearly all the vital questions troubling them.

It may no longer be possible to attribute to the Propaganda Ministry responsibility for all that appears as "propaganda", since the acute internal conflict in Germany is now producing such serious divergencies. It may be difficult to find a thoroughly consistent purpose or closely integrated picture.

The Nazi party is being given increased prominence. This seems to be a permanent trend. Hitler, having definitely cast in his lot with radical extremists, is now doing everything to strengthen the party organization. Making terrible examples of a few party officials, such as those known to be corrupt, may be included in this program.



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

May 1, 1942

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

Dear Henry:

The attached is from the Weekly
Italian Directive of the British Political
Warfare Executive.

Sincerely,

Bill
William J. Donovan

Italy:

a. Worsening of the internal situation. Weakness of Germany means heavier calls for manpower on Italy, planes for Malta, troops for Russia, thus increasing domestic difficulties in Italy and making basic problems of food production and distribution more acute;

b. Fascist propaganda seeks to divert the attention of Italians from the German internal situation as revealed by Hitler's speech;

c. Rumours of political crises must be treated with utmost caution. In the past, hopes of the crown's taking the initiative have so often been frustrated that it would be dangerous to indulge in comments and deductions without convincing evidence. It may be that rumours of constitutional crises have been deliberately set afoot to put pressure on the crown to commit itself even more deeply to the Fascist regime.

d. The meeting of Mussolini with the prefects was probably concerned with food problems. The powers of military tribunals and prefects have been greatly extended, and Mussolini seeks shelter behind their authority. This decentralization evidently is aimed at local solution of food problems, which further confirms the breakdown of the Fascist system;

e. That the Fascists are anxious is confirmed by the greatly increased jamming of foreign broadcasts.

France:

Hitler's current favorite is Laval, not Mussolini. We must expose the failure of Mussolini's policy indicated by the significant silence which is maintained by Fascist propaganda on Italian claims on Tunis, Corsica, etc. and re internal affairs in France.

-2-

Mediterranean:

Roosevelt's statement on American warships in the Mediterranean whenever news permits should be repeated. Hint at fact that American Navy has access to Mediterranean because of American base in Eritrea, and via Gibraltar.



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

May 1, 1942

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

Dear Henry:

The attached is from the Home Intelligence report for the week ending April 29.

Sincerely,

Bill
William J. Donovan

The dominant note in all regions is expectancy, ranging from "more active warfare in Europe" to "firm conviction that this year we invade the west." The Commando and R.A.F. raids have had a tonic effect. Speculation on "coming Allied offensive" has been caused by German precautions in the west, by Beaverbrook's demand for a second front and by the Marshall-Hopkins visit.

Vichy - There is anxiety as to the future of the fleet. Laval is still hated and hopes of a successful attempt on his life are expressed.

Russia - There is little comment but gratitude, confidence and admiration persist. "Russian talks and films are still the major incentive to increased production."

Far East - There is continued satisfaction on the Tokyo bombing, otherwise interest has declined. Only a minority indicated anxiety on Burma.

Malta - There is admiration for the defense and for the people's spirit coupled with the demand to bomb Rome.

Hitler's Speech - "He has a pack of trouble on his own front." "Nothing in it to discourage us."

Bath - "The population stood up well. No sign of fright. There was pride in having taken it."

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There was an exceedingly good response to the Ministry of Information loudspeaker van announcements. "People immediately hurried to do as they were told. ~~---~~

Industry - There are fewer stories of slackness and idle time and less criticism of management.

Budget - There continues to be favorable comment with protest against beer and tobacco taxes.

Proposed fuel rationing. Public has reacted very unfavorably.

Food - There is general satisfaction over the imminent control of luxury feeding and restaurant meals.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 1, 1942

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

R.A.F. Activity

During the night of April 27/28, 91 tons of high explosive were dropped on the German fleet at Trondheim. The next night, Wednesday, 29 heavy bombers were sent to Trondheim and dropped 56 tons of bombs and mines. The results were mainly obscured by haze and smoke, but one bomber claims to have straddled the Tirpitz with mines. The bombers also succeeded in shooting down two Messerschmidt 110 night fighters.

On Thursday night, the main attack was on Paris factories working for the Nazis. Eighty-eight bombers were used in this attack which, according to preliminary reports, was very successful. The plants bombed from a low altitude. (The ability of the British to make roof-top attacks on the plants in Paris and on Rostock shows almost complete absence of anti-aircraft protection and even of barrage balloons around many important targets.)

(U.K. Operations Report, April 30, 1942)

Voice of the Chief Broadcasts

Better Air Raid Protection is Needed

The Voice of the Chief praises the Luftwaffe's "successful raids" against England, but bemoans insufficient air raid precautionary measures in Rostock, Luebeck and other cities.

- 2 -

"Well, finally we have gotten around to busting up the joints of the dirty English just as they did to us", the Chief says. "That is something at least: Retribution for Luebeck, Rostock, Hamburg and Essen. I have seen what those dirty dogs did there, and I say, give them the works, tear up their streets, stuff them into their cellars, just as they did to us.

"But that is not enough. With us, too, in our bombed cities things must be done differently. It is not enough to block off heavily hit districts in order to spare our compatriots such sights or to interrupt the postal service to stymie the bad news.

"It is much more important to show some concern for the health of the working population in the cities which have been bombed. For, in the plants that remain unhit, double and triple the work must be done now in order to make up for the damage done by the enemy and to avoid interruptions in the supply of material."

(Federal Communications Commission,
April 28, 1942)

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OF POSSIBLE INTEREST

The Commanders of the Russian Air Force

Col. General Zhigarov is the Deputy for Aviation of the People's Commissariat of Defense. That is, he is both the commander of the air force and head of the air defense department. Zhigarov was Soviet Air Attache in China in 1936 and later commanded the Far Eastern air force.

Lt. General Novikov was recently appointed first deputy commander as a result of his successful air defense of Leningrad.

Lt. General Petrov is the second deputy commander of the Red Air Force. Petrov was formerly a test pilot and head of the Russian air research institute.

Lt. General Proskurov, third deputy commander for Aviation is also a member of the Soviet Supreme Council, i.e., equivalent to an American Senator. Proskurov fought in Spain as a Russian volunteer against Franco in 1937.

(Source: British Military Magazine, "The Fighting Forces", April 1942)

Conference of Sir Frederick and Mr. Bewley
with Mr. White and Mr. Hicks in Mr. White's office
May 2, 1942
10:00 A. M.

Sir Frederick and Mr. Bewley called upon Mr. White to discuss Britain's dollar position. Sir Frederick said that negotiations for the take-over of ordnance contracts were proceeding satisfactorily and that \$90 million might be realized. He said that the facilities were being discussed with Major Dyson, and that the 11 cases remaining in the list of plants recommended for purchase by the President might be purchased by the Army at a price of about \$60 million. These plants included \$35 million of aircraft plants and \$25 million of other plants.

Sir Frederick said that he intended to see Mr. Achesson early next week on reciprocal aid. He said that it appeared that expenditures on account of American troops abroad would approximate \$20 per month per man, but that costs incurred under reciprocal aid on account of American troops abroad would probably be between \$25 and \$30 per month per man in the United Kingdom and perhaps a little more in Australia.

He said that when the analysis of these costs was completed, and the advantage of reciprocal aid to the United States was determined, it might be more possible to obtain from government agencies or even Congress the funds with which to purchase some of the remaining British contracts. The principal remaining contracts, if other plans succeed, will be the aircraft contracts, the total value of undelivered materials on which is \$450 million: \$250 million remains to be paid, and \$200 million stands as advance payment.

Sir Frederick left with Mr. White a copy of a memorandum reviewing the prospect of Britain's dollar position for the 12 months beginning April 1942. He said the memorandum indicated that Britain's deficit on current account during that period would be between \$250 and \$300 million, and he said that the take-over arrangements now being discussed were not sufficient to cover that deficit.

Mr. White suggested to Sir Frederick that more than \$450 million might be obtained from the take-over of aircraft contracts, since there is at any time, a large volume of aircraft, engines, and frames that have been delivered to the British, and thus do not appear in the value of undelivered materials, but which have not been shipped from the United States, and are therefore available for take-over. Mr. Hicks said that a British document submitted to the Treasury in March indicated that the volume of such material, particularly engines, was very large.

Division of Monetary
Research

- 2 -

Sir Frederick said there was nothing new to report on the Iranian situation, but that he would like to report that a similar situation might arise in Portugal. He said that the Portuguese appeared to be unwilling to accept either sterling or dollars. Mr. White said that the United States had no objections to paying gold on earmark in New York rather than dollars, but that he did not think it would be willing to ship gold to countries in the proximity of the Axis.

J.E. Hicks

M E M O R A N D U M

1. British holdings of gold and dollars (excluding the Belgian loan) rose from about \$190 millions on March 31, 1941 to \$615 millions a year later. The increase in the year ended March 31, 1942, thus amounted to \$425 millions. During the year the position of the United Kingdom worsened by about ~~\$5~~ billions, of which nearly \$2 billions represented the growth of overseas balances in London, which will have to be repaid some day.

An approximate analysis of the increase in the balance during the year is shown by the following figures:

	<u>\$ Millions</u>
Gold, net acquisition *	505
Special receipts:	
from RFC loan	390
from direct investments (Viscose and B.A.T.)	80
from market securities	90
from South African securities (special sale for gold)	130
from sale of wool stock	40
	730
Net credit on current \$ account	90
	1,325
<u>less</u> Net payments on British Government contracts in the U.S. **	900
	425

* Excluding special purchase of gold from South Africa shown under capital receipts. The acquisitions of newly-mined gold from South and other Africa was \$455 millions, Australian gold (mainly sold direct to U.S. before Pearl Harbor) was about \$60 millions, other acquisitions of gold (from dishoarding, Russia, etc.) was \$60 millions. Of the total of \$575 millions, \$70 millions was sold direct to countries other than U.S., giving a net acquisition of \$505 millions. Sales to U.S. (including direct Australian sales) amounted to approximately \$100 millions, included in the figure of \$505 millions.

**Deducting sales of capital facilities (e.g. Tennessee Powder) and refunds on contracts taken out by the United States.

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2. It may be noted that if there had been no old contracts to pay for, and no special receipts, the year would have shown a small gain of \$90 millions, apart from newly-mined gold. Had this state of affairs continued for the rest of the war, the newly-mined gold would have accumulated as a small but useful reserve against the liabilities represented by the growth of overseas sterling balances. But the sterling area, since the entry of the United States into the war, no longer brings us in a favourable balance of dollars.

The loss of Malayan exports alone amounts to \$300 millions a year. There is a large but as yet unknown fall to be faced in Indian and Burmese exports. Meanwhile, United Kingdom exports, not only to the United States but to all destinations, are steadily falling owing to lack of shipping, labour and raw materials. Instead of a small net gain, there will be a large current deficit in the coming year which might amount to as much as \$250 - \$300 millions.

British Government contracts still outstanding in the United States on the 1st April last required payments of about \$430 millions before they run out early next year. Taking account of rising costs (not fully allowed for in this figure) and of administrative expenses, we have at least \$450 millions to pay during the year.

The sterling area may, thus, need to find dollars to an amount of \$700 to \$750 millions during the coming year, with a continuing though smaller deficit thereafter.

3. The liabilities of the United Kingdom to sterling area and other countries outside the United States are already very large and the present British gold holding is but a small reserve against them. We had been at war more than two years before December 7th last and had been fighting the United Nations' cause practically alone for over 18 months. For a considerable time more than half of the national income

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of the United Kingdom has been spent on the war. But, as a result of the burden carried so long alone, British investments in the United States have been largely sold or pledged while British indebtedness to India, South Africa, South America and other countries has grown to large proportions.

The present British gold holding must, therefore, be maintained against liabilities outside the United States.

4. This is, however, not the end of the story. Additional liabilities to countries other than the United States are being incurred on an increasing scale. It is estimated that additional liabilities during the coming year will amount to £500 millions, or \$2,000 millions, even when we allow for the Canadians' generous gift. The net acquisition of gold will almost certainly fall short of the amount received in the past year, especially if mining equipment is not forthcoming from the United States in sufficient quantities to maintain output and since some sources (e.g. New Guinea) have been cut off and others threatened by the war. We can count on less than \$500 millions a year, i.e., less than one-quarter of the additional liabilities we expect to incur. The British Government is, therefore, most concerned that the current gold output should be retained as a partial reserve against currently incurred liabilities.

5. In the circumstances described the British Government asks that arrangements should be made which will make it unnecessary for any further gold or other capital assets (other than capital facilities mentioned above) to be sold to the United States. In this event how is the dollar deficit of \$700 to \$750 millions to be found in the coming year?

Special receipts will comprise only the balance of the RFC loan and a little to come from special wool sales, say \$10 millions altogether. No further special purchase of South African gold, other

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then of the output of newly-mined gold is possible. Sale of capital facilities might come to \$90 millions (of which \$60 millions for the eleven cases covered by the President's directive, and \$30 millions for new cases). For airplanes handed over after Pearl Harbour we have received \$70 millions; the balance to come is not yet known. This reduces the figure to \$500 millions - \$550 millions.

6. The most appropriate method for enabling us to meet this expected deficit is a bulk take-out of our remaining dollar contracts. Planes and munitions supplied from our pre-lend-lease contracts are now regarded as being at the disposal of combined boards and are allocated by these boards in accordance with strategic needs. The move towards a pool of overseas resources is further emphasised by the reciprocal lend-lease proposals. The United States Government has already agreed to take over our outstanding ordnance contracts and we should hope to obtain assistance by this means of some \$90 millions. It will be seen that if the estimate in this memorandum is correct, this is far from enough. The value of the deliveries still to be made under our air contracts is about \$450 millions, \$250 millions of this represents payments still to be made under the contracts and the remaining \$200 millions represents payments made in advance. Both because of the pooling of supplies and because of our need of additional reserve we ask that the air contracts as well as the ordnance contracts should now be taken over.

7. As indicated above there may be further receipts in respect of airplanes, etc., taken over after Pearl Harbour or for Russia and China. Moreover, the presence of United States troops in the sterling area will produce some dollars. But the latter will hardly exceed \$200 million a year, and this source of dollars would only reach \$100 millions on the basis of 500,000 men in the sterling area on the average throughout

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the year. The effect of reverse lend-lease itself, which the United Kingdom hope to make as generous as possible, is somewhat adverse to our dollar position.

The principle we seek to establish is that there should be no further transfer of capital assets or gold, and that we should not attempt to build up anything beyond a working balance in dollars.

Willard Hotel,

Washington, D.C.,

May 2, 1942.

For Miss Chauncey

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TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

May 2, 1942.

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended April 22, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

(Initialed) R. H.

dm:5/2/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 2, 1942

TO Mr. White
FROM Mr. Hoflich
Subject: Mr. Casaday's first report on the British Voluntary Savings campaign.

We have received Casaday's first cable report on the British voluntary savings campaign, in response to the instructions in our cable no. 1730 of April 22, 1942.

Casaday has visited Ipswich, an industrial port city of 90,000 population in the Eastern region. This region is predominantly rural, but includes many commercial and industrial centers as well. The following is a digest of Casaday's report on the organization and operation of the voluntary savings campaign in this region. A copy is being sent to Mr. Graves.

1. Composition of the savings committees.
 - a. The regional commissioner, his office staff and deputy commissioners (one in each county) are paid full-time civil servants. Most of the other workers are unpaid and voluntary. Everyone interviewed emphasized the importance of voluntary workers and considered it desirable to keep the movement free from the appearance of undue control by the Treasury or other government agencies.
 - b. The local committees are made up of representatives of the various types of business and industry, professions, and other special interests and organizations. Those interviewed emphasized that the local committee should be large and include representatives of every section of the population. Local committees are working organizations, not policy-forming. The chairman is usually the mayor or some other influential citizen. The heaviest burden falls on the secretary, who is the principal organizer of savings groups.
2. Selection of the local committees. Officers and members are sometimes elected at public meetings in smaller communities. Sometimes individuals volunteer. Organizations frequently elect representatives. In selection, the regional officer, and if necessary the national committee tries to exercise a guiding influence. Tactful weeding-out is sometimes necessary where local committee members lack energy and ability.

Division of Monetary
Research

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3. Local savings groups. These groups, organized under the direction or with the aid of the local committee, constitute the basic units of the savings movement. In towns the most common basis of membership is place of employment. Employee groups are organized at meetings on company time if possible, to assure a good attendance.

The payroll deduction scheme is urged for employees. But individuals tend to pledge the minimum rather than the highest possible amount, and many employees fear wage cuts if their employers know how much they are saving. Consequently the group secretary solicits the members weekly for extra savings. Sometimes kiosks are set up near pay windows on pay-day. Posters and circulars are liberally used.

Other bases for saving groups include local trade unions, clubs, churches, etc. Experience with school savings groups indicates that schools are often the outlet for much adult saving.

Street groups consist of residents of a single street or block. In rural areas the entire village and nearby farm population may be the basis of a savings group.

The savings league has been instituted by numerous employers, by organizing departments or other sub-groups into competing savings teams, and giving saving certificates to the winning teams, the members of which draw lots for ownership of the certificates awarded. This plan has recently been extended to an inter-company basis.

4. The savings center. This is formed in each town or locality, serving as headquarters for the campaign workers.

5. Special campaigns, such as Warships Weeks. During such periods all efforts are greatly intensified, and some alterations in organization occur. Local sub-committees on publicity, schools, industries, etc. are set up. More posters and campaign literature are put out. The aid of the press is enlisted. Targets are set up for each locality and usually for each savings group on a percentage of wage basis. Banks and other institutions are asked to participate heavily as this tends to stimulate small savers.

In order to arouse interest and enthusiasm, various devices are used, such as pageants, athletic contests, ploughing contests, dog races, raffles, etc. These are used also to help defray the expenses of the special campaigns. Government allowances for the special campaigns are never sufficient to cover all expenses incurred.

The radio is not used locally, due largely to the national ownership of the broadcasting system, but it is used nationally.

PH

PLAIN

London

Dated April 30, 1942

Rec'd 3:30 p.m.

Secretary of State,
Washington.

2281, Thirtieth.

FOR SECRETARY OF THE TREASURY FROM CASADAY
Department's 1730, April 22.

For general background please refer to a memorandum entitled "the war savings campaign" prepared by the British Treasury and forwarded under cover of my letter dated September 26, 1941.

A visit has been made to Ipswich, an industrial port city of 90,000 population located in the eastern region and later to Cambridge, the regional headquarters of the eastern region comprising Bedfordshire, Cambridgeshire, Isle of Ely, Hertfordshire, Huntingdon, Norfolk, Suffolk and Essex. The eastern region is predominantly rural but includes many commercial and industrial centers as well and thus provides a good cross-section of the different problems and techniques found in the several types of community. The extent to which the information reported

-2-#2281, Thirtieth from London,

reported herein is representative will appear only after other localities have been visited.

The regional commissioner, his office staff and the deputy commissioners (one for each county) are paid full-time civil servants. With some exceptions, all other workers are unpaid and voluntary, some full-time and some part-time. All persons interviewed emphasized the importance of the voluntary workers and considered it desirable to keep the movement free from the appearance of undue control on the part of the Treasury or other government agencies.

The local committees are officered by a chairman commonly the mayor or some other influential citizen, a deputy chairman and a secretary. Its membership comprises representatives of the various types of business and industry such as banking, manufacturing, retailing, representatives of the professions and representatives of special interests and organizations such as trade unions, women's clubs, churches, schools, the women's voluntary service, et cetera. It is emphasized that the local committee should be large and include representatives of every section of the population. Essentially the committee is a working organization

-3-#2281, Thirtieth from London.

organization rather than a deliberative, policy-forming body.

The officers and members of the local committees are selected in various ways. Sometimes, in the smaller communities a public meeting is held and the committee elected by the general populace. Sometimes individuals volunteer their services. Organizations frequently elect their representatives. In the process of selection, the regional officer and if necessary the national committee tries tactfully and unobtrusively to exercise some guiding influence. In response to questions it was reported that representatives are sometimes elected on the basis of popularity who lack the necessary drive or are in other ways not well fitted to the job. The same may be true of volunteers. Also it was found that some of the workers long associated with the movement (for the savings movement has been continuously in existence since the last war) were not able to cope with the vastly broader scope and more intensive effort required in the present circumstances. Consequently the initial step frequently is that the regional office or the national committee invite prominent and able local persons to

-4-#2281, Thirtieth from London.

persons to serve as officers. These, in turn, may invite or persuade those whom they feel to be representative of their respective sections of the local community to serve as members of the committee. Sometimes a tactful weeding out process has to be undertaken to overcome the difficulties suggested above.

The heaviest burden falls on the secretary of the local committee. He is the principal organizer of the savings groups. The chairman and deputy chairman confer with him and help to determine policy but do not devote a large proportion of their time to active organizing. A chartered accountant in Ipswich who was local secretary for two years stated that fully half of his time and that of his office staff was taken up by organization work and the personal visits, telephone calls, correspondence, record keeping, and reporting incidental thereto. The secretary must know practically everybody in the town, be a good organizer and "salesman" well liked and above all able and willing and able to devote much time to the job. In a few localities the national committee has provided funds for the hiring of clerical help for the local secretary and most persons

-5-#2281, Thirtieth from London.

persons interviewed advocated that this practice be extended.

The savings groups organized with the direction or aid of the local committee constitute the basic units or "cells" of the savings movement. The composition of the savings groups varies greatly. In towns the commonest unit is the place of employment. In such cases the local secretary or others on the local committee approach the employer and seek permission to hold a meeting of employees on the premises and on company time. In this way 100 percent attendance rather than 25 or 30 percent can be achieved. One or two good speakers from the regional commissioner's office address the meeting, hand out literature and obtain pledges. The meeting is then asked to elect a group chairman to preside at future meetings and a group secretary who makes weekly contacts with the membership. The employees of a single establishment are referred to as one group but if, as in some cases in the district visited, there are several hundred or several thousand employees, a large number of sub-groups on a shop or departmental basis, each with its chairman and secretary, may be created.

Employees

-6-#2281, Thirtieth from London.

EMPLOYEES ARE invariably urged to pledge a regular WEEKLY amount and to authorize deduction of same from their wages: this enables the local committee to make some estimate of future savings and introduces an element of dependability and continuity in the movement. But the regular weekly deductions are not sufficient and must be supplemented by other methods. First, because of the uncertainties of the future the individual tends to pledge the minimum rather than the maximum he thinks he can save. Second, many employees do not want their employers to know how much they are saving or could save as a maximum fearing that wage cuts may result or legitimate raises be withheld in the future. Consequently the group secretary contacts all employees weekly for extra savings usually by personal solicitation. The company must be persuaded to allow this on company time. Often kiosks are set up near the pay window on pay day or in other likely spots and the group secretary does a certain amount of "hawking" to attract extra savings. Posters and circulars issued by the national, regional or local committee are also liberally used.

Other bases

-7-#2281, Thirtieth from London.

Other bases for savings groups include schools, local trade unions, clubs, churches and the like. In one town the proprietor employees and the "pay-day regulars" of a public house were organized into a savings group. In schools the group secretary is usually the teacher. The multiplicity of groups enables the individual to save without his employer or neighbors knowing the amount. Instances were given where a school of several hundred children saved hundreds or even thousands of pounds in special weeks, indicating that the school was the outlet for much adult saving.

As supplements to the work of the various types of savings groups mentioned above, the street groups are important and much effort is being made to develop these in the communities visited. The group consists of the residents of a single street or block. The secretary selected in any of the ways previously outlined, is almost invariably a woman frequently from the women's voluntary service. She personally canvasses the homes in her zone regularly to obtain extra savings from housewives, children, domestics and others. She must have the confidence of the people
in her

-8-#2281, Thirtieth from London.

in her neighborhood and be not given to personal gossip although it is reported that most street group secretaries are welcomed in the homes and that the residents often enjoy and look forward to the weekly friendly chat.

In rural areas the entire village and nearby farm population is likely to be the basis of the savings group. Groups are also formed in schools, churches and clubs if such exist. Group secretaries usually canvass from house to house and from farm to farm on bicycles. Weekly socials are held in most villages.

Group secretaries are commonly members of the local committee.

It is obvious that the same family and even the same individual is often affiliated with more than one group. None of the persons interviewed believed that there was much evasion of saving through the device of saying "I am already saving through my club" or "my husband is already saving all we can through his shop group". It is assumed that the success of the movement must rest on a positive desire and willingness to save, either on personal or patriotic grounds and that the main task is to
present

-9-#2281, Thirtieth from London.

present the case forcefully and overcome inertia, rather than to plug up loop-holes for possible evasion. This task is best accomplished by utilizing every possible avenue of approach, regardless of duplication.

It was emphasized that local secretaries must be called together periodically for conference, entertainment and renewal of enthusiasm. The same is true of group secretaries. These individuals are the driving force of the movement and success depends on their ability and zeal.

Several employers in the localities visited have introduced a scheme called the savings league. The various sub-groups or departments within a given plant are designated as teams and the employer donates weekly or monthly a specified number of savings certificates to the winning team and to the team making the most spectacular gains during the period. The basis of the award is not the amount saved but the proportion of the total number of employees in the unit who are pledged regular savers. The individual members of the winning team then draw lots for individual ownership of the donated certificates. Recently this plan has been extended to an inter-company basis. the

-11-#2281, Thirtieth from London.

devotes considerable space to news and editorial comment on the progress of the campaign. A target is set for each locality usually for each savings group and often for each individual on a percent of wage basis.

Banks and other institutions are asked to participate heavily both to engender enthusiasm by swelling the total figures and because many people are said to be prone to ask "what is the big money doing?" Warship weeks and similar drives emphasize also sales of the so-called "large savings" invested in by banks i.e. national war bonds and savings bonds as well as "small savings" that is certificates "baby" bonds and savings bank deposits.

The activities sub-committee organizes pageantry using school children, nearby military personnel and equipment where available and other resources. Dances, athletic contests, ploughing contests, whist drives, dog races, raffles, darts, contests and innumerable other ingenious and entertaining devices suited to the locality and designed to reach and enthuse all sections of the community are also used.

Another

-18-#2281, Thirtieth from London.

Another purpose of these activities is to raise money to defray the expense of local propaganda. For warships weeks an allowance from government funds when approved by the regional commissioner is made to each community on the basis of population but this is never sufficient to cover all expenses incurred. Frequently the various activities result in raising more money than is spent, in which case the surplus may be presented to the Exchequer as a gift or kept by the local committee to meet future overhead expenses.

The variety and ingenuity of devices used locally during these special campaigns is amazing and sometimes amusing. Illustrative material from Ipswich, Cambridge and the eastern region is being forwarded by air pouch. The radio is not used locally owing largely to the national ownership of the broadcasting system but it is used nationally. Almost invariably local warships weeks feature speeches locally by nationally eminent personages.

As more areas are covered some general consideration and criticisms of various aspects of the savings movement will be indicated.

From my

-13-#2281, Thirtieth from London.

From my brief experience on this assignment I anticipate requests from local regional and national organizations for reciprocal material concerning the savings movement in the United States. All persons encountered thus far are avid for new ideas and seem anxious to know what methods are being used in the United States. Any material you can send me on the American campaign will prove useful to me in obtaining full cooperation from the British and it is assumed be of benefit to the British movement.

MATTHEWS

WSB

b

OFFICE OF FACTS AND FIGURES
WASHINGTON

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THE DIRECTOR

May 2, 1942

Dear Henry:

Thanks for yours of the twenty-
eighth with copies of letters from William
Green. I am delighted to see these.

Faithfully yours,

A. M.
Archibald MacLeish

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

MAY 12 1942

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

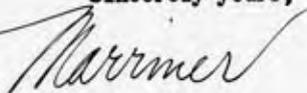
May 2, 1942.

Dear Henry:

Thank you for your letter of April 25 enclosing copies of the letter and leaflet which have been sent to some twenty thousand companies employing nearly twenty million workers.

I have not as yet had an opportunity to go over this material very carefully, but I wanted you to know that I appreciated your inviting my suggestions and if I have any, I shall not hesitate to pass them along to you.

Sincerely yours,



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

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Business Day of May, April and March 1942
(May 1, April 1, March 2)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	May	April	March	May over April	April over March	May over April	April over March
Series E - Post Office	\$ 3,219	\$ 2,476	\$ 5,811	\$ 743	-\$3,335	20.0%	- 57.4%
Series E - Banks	<u>9,460</u>	<u>10,517</u>	<u>15,868</u>	- 1,057	- 5,351	- 10.1	- 33.7
Series E - Total	12,679	12,993	21,678	- 314	- 8,685	- 2.4	- 40.1
Series F - Banks	1,479	2,380	2,043	- 901	337	- 37.9	16.5
Series G - Banks	<u>5,824</u>	<u>9,608</u>	<u>8,726</u>	- 3,784	882	- 39.4	10.1
Total	<u>\$19,981</u>	<u>\$24,980</u>	<u>\$32,447</u>	- <u>\$4,999</u>	- <u>\$7,467</u>	- 20.1%	- 23.0%

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

May 2, 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

Comparative Statement of Sales During
First Business Day of May, April and March 1942
(May 1, April 1, March 2)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	May	April	March	May over April	April over March	May over April	April over March
Series E - Post Office	\$ 3,219	\$ 2,476	\$ 5,811	\$ 743	-\$3,335	70.0%	- 57.4%
Series E - Banks	<u>9,460</u>	<u>10,517</u>	<u>15,868</u>	- 1,057	- 5,351	- 10.1	- 33.7
Series E - Total	12,679	12,993	21,678	- 314	- 8,685	- 2.4	- 40.1
Series F - Banks	1,479	2,380	2,043	- 901	337	- 37.9	16.5
Series G - Banks	<u>5,824</u>	<u>9,608</u>	<u>8,726</u>	- 3,784	882	- 39.4	10.1
Total	<u>\$19,981</u>	<u>\$24,980</u>	<u>\$32,447</u>	- <u>\$4,999</u>	- <u>\$7,467</u>	- 20.1%	- 23.0%

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

May 2, 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 - May, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
May 1942 1	\$ 3,219	\$ 9,460	\$ 1,479	\$ 5,824	\$ 16,762	\$ 12,679	\$ 1,479	\$ 5,824	\$ 19,981

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

May 2, 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.

May 2, 1942

Telegram received this morning from John A. Hartford, President,
Great Atlantic and Pacific Tea Company, New York

"Survey all areas today reveal decidedly less consumer comment in stores than yesterday, probably due to less newspaper comment. Remarks largely confined to questions as to when new low prices will be in effect. Occasional remark made to effect "I wont buy much until I see what happens," but sales figures are about normal considering suspension sugar sales, and do not reflect such an attitude generally. Better able to judge this after Saturday when country people usually make heavy weekend purchases of staples. Occasional inquiry noted as to whether ceiling prices will be alike on same commodity in all stores.

"Retail and wholesale distributors mostly concerned where manufacturers' prices advanced in February and retails did not advance until April, resulting in selling at March retails much lower than March costs, particularly in heavy lines such as soaps. This may result in merchants discontinuing May lines showing losses."

John A. Hartford, President
Great Atlantic and Pacific Tea Company,
New York



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

(Confidential)

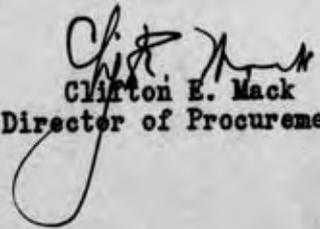
May 2, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 2, 1942.

Immediately following the embargo on shipments for Russia, information as to supplies in transit was furnished the War Department in order that a prompt survey could be made with the thought in mind of providing selective cargo for the fewer ships which will be available, estimated to be about fifteen for the balance of this month. We have accordingly diverted steel for Russia to intransit warehouses and have an accumulation now sufficient to take care of all boats to be made available for Russia for the balance of this month, which can be shipped immediately upon obtaining releases from the War Department.

Included in the shipments to go forward for Russia are diversified materials for Arctic bases scheduled for steamers sailing May 25th.


Clifton E. Mack
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 MAY 2, 1942
 (In Millions of Dollars)

	Total	U. K.	RUSSIA	CHINA	ADMINISTRATIVE EXPENSES	UNDISTRIBUTED & MISCELLANEOUS
Allocations	\$1402.4 (1402.3)	\$684.6 (682.0)	\$257.2 (247.0)	\$ 55.2 (55.2)	\$ 1.6 (1.6)	\$403.8 (416.5)
Purchase Authoriza- tion (Requisitions)	\$ 920.5 (922.1)	\$621.8 (619.5)	\$250.3 (252.4)	\$ 44.0 (45.9)	- -	\$ 4.4 (4.3)
Requisitions cleared for Purchase	\$ 866.3 (858.4)	\$597.3 (590.4)	\$223.6 (220.7)	\$ 41.6 (43.5)	- -	\$ 3.8 (3.8)
Obligations (Pur- chases)	\$ 836.6 (825.9)	\$577.3 (571.5)	\$216.5 (209.8)	\$ 39.0 (40.8)	\$.9 (.9)	\$ 2.9 (2.9)
*Deliveries to For- eign Governments at U. S. Ports	\$ 335.1 (320.2)	\$270.7 (263.2)	\$ 44.6 (38.1)	\$ 18.6 (17.8)	- -	\$ 1.2 (1.1)

*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 25, 1942.

EXPLANATION OF CHANGES

Allocations, Requisitions Cleared for Purchase, Obligations, and Deliveries to Foreign Governments at U. S. Ports increased in total for the week.

The decline in Chinese Purchase Authorizations, Requisitions Cleared for Purchase, and Obligations of approximately \$1,900,000 is the result of cancellation of funds applicable to a contract for 17,000 tires and tubes.

The decline in Russian Purchase Authorizations is the result of processing requisitions at a rate greater than they have been received.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 2, 1942

TO Secretary Morgenthau
FROM Mr. White

Subject: Status of Stabilization and Gold Purchase Agreements.

1. Stabilization Agreements in Operation.

Country	Dated	Expires	Amount		Collateral
			Commitment	Outstanding	
Brazil ^{1/}	7/15/37	7/15/42	\$60,000,000	None	None gold
China	7/14/37	6/30/42	50,000,000	\$19,112,500	\$19,379,000 gold
China	4/1/41	6/30/42	50,000,000	None	None required

2. Stabilization Agreements Concluded but not yet effective

Argentina	1/1/41	6/30/41 ^{2/}	\$50,000,000	None	None required
Mexico	11/1/41	6/30/43	40,000,000	None	None required
Ecuador	3/1/42	6/30/43	5,000,000	None	None required

3. Gold Purchase Agreements

Country	Dated	Delivery by	Commitment to buy	Gold still	Advance still
				undelivered	outstanding
Russia	10/10/41	6/8/42 ^{3/}	\$31,605,000	\$11,866,000 ^{4/}	\$9,803,000 ^{5/}
Russia	1/3/42	7/2/42	21,070,000	21,070,000	20,000,000

- ^{1/} This agreement also provides for sale to Brazil of up to \$60,000,000 in gold, of which \$29,465,000 has been sold.
- ^{2/} Argentines informed agreement can be revived on ratification.
- ^{3/} In April, original delivery date of 4/8/42 was extended by 60 days.
- ^{4/} But against this amount, Russia recently delivered about \$11,250,000 in gold which is now being assayed to determine exact value.
- ^{5/} This balance due will be canceled by the gold mentioned in footnote 4.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 143

Information received up to 7 A.M., 2nd May, 1942.

1. NAVAL

On the afternoon of the first a homeward convoy from RUSSIA was attacked by three destroyers which were driven off. One ship of the convoy was sunk and one of H.M. Destroyers slightly damaged. At ten fifteen P.M. an outward convoy to RUSSIA was unsuccessfully attacked by six Junkers 88 one of which was shot down.

2. MILITARY

LIBYA. 30th. An operation was carried out by some of our armoured forces to reconnoitre enemy dispositions and test his strength in the TENGEDER Area. Final reports have not been received but the operation was hampered by severe dust storms.

3. AIR OPERATIONS

WESTERN FRONT. 1st. 12 Bostons and 8 Hurricane bombers, escorted by 21 Squadrons of Spitfires attacked ST. OMER Railway Station and factories at CALAIS and MARQUISE. 13 Squadrons of Spitfires carried out sweeps over Northern FRANCE. One enemy fighter was destroyed, five probably destroyed and five damaged. We lost 8 Spitfires, one pilot safe. 1st/2nd. 26 Coastal Command aircraft were sent to attack shipping off NORWAY. Preliminary reports state that a Hudson obtained two hits on a destroyer. One Hudson is missing.

MALTA. Between two fifteen P.M. 30th and two P.M. 1st about 50 bombers and fighters attacked or patrolled the Island causing very slight damage. Our anti-aircraft and fighters destroyed three and damaged four.

4. HOME SECURITY

At BATH, NORWICH and EXETER, good progress has been made in restoration of public services. At BATH it is expected that gas will be available from BRISTOL in about a fortnight. Meanwhile, producer gas has been installed in most factories affected.

-COPY-

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WUWEL 61 GOVT NT COLLECT

TD WD BEACON NY MAY 3 1942

HAROLD GRAVES

OFFICE OF SECY OF THE TREASURY

THE TWELVE PRESIDENTS OF THE FEDERAL RESERVE BANK AND THE HEADS OF SECURITY DEALERS OF AMERICA WILL MEET IN WASHINGTON THURSDAY. BEFORE THEN I WANT YOU TO WORK OUT AND SUBMIT TO ME A PLAN FOR INTENSIVE SELLING OF F AND G WAR BONDS. PLEASE CONSULT WITH DAN BELL AND GEORGE BUFFINGTON. COPY TO MRS KLOTZ AND MR TED GAMBLE

HENRY MORGENTHAU JR.

731 AM May 4.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 144

Information received up to 7 A.M., 3rd May, 1942.

1. NAVAL

One of H.M. Cruisers was hit by two torpedoes on the afternoon of the 30th April off NORTH CAPE, whilst escorting a homeward convoy from RUSSIA. On the 2nd May, when in tow in thick weather, she was attacked by three Destroyers about 150 miles North of MURMANSK. Two of H.M. Destroyers and two Naval Minesweepers engaged the enemy, one enemy Destroyer was sunk and one damaged. The Cruiser was hit by one torpedo and had to be abandoned and finally sunk by one of H.M. Destroyers. Casualties from the Cruiser were two Officers and about 56 ratings killed.

2. MILITARY

LIBYA. The operation reported yesterday was completed. Some concentration of enemy mechanical transport, tanks and armoured cars was reported six miles east and east-south-east of TENGEDER.

BURMA. IRRAWADDY FRONT. The Japanese have captured MINYWA and have progressed towards YEU (twenty miles north west of SHWEDO). The road and river bridges across the River MYITNGE have been blown up.

CHINESE FRONTS. No further reports.

3. AIR OPERATIONS

WESTERN FRONT. 2nd/3rd. One hundred and nineteen aircraft were despatched - Sea mining in BAY OF BISCAY and BALTIC 96; Leaflets BRITTANY 11, an ALBEMARLE Class Tanker AALESUND HARBOUR 12. Two aircraft are missing. The tanker was hit and set on fire.

MALTA. Between 2.15 P.M. 1st and 1.15 P.M. 2nd, about forty aircraft attacked. Two were destroyed for the loss of one Spitfire, pilot wounded.

EGYPT. 30th/1st. Fifteen Junkers 88 bombed PORT SAID. About fifty bombs were dropped in the Harbour area and two merchant vessels were damaged. One enemy aircraft was destroyed and another damaged.

May 4, 1942

MEMORANDUM FOR THE FILES:

The Secretary telephoned me on May 3, and suggested the idea of obtaining from the files and other sources a complete story of his record on inflation and additional taxes. He suggested beginning with his Boston speech and showing in detail recommendations he had made by way of combating inflation and by way of additional taxes, including the truncated recommendations of November, 1941.

He also wants to show the record of others, like Leon Henderson, Marriner Eccles, Harold Smith, etc. The facts, if properly garnered, should show that the Secretary was an inflation early bird, and that none of the others proposed higher taxes than the Secretary previous to March 3, but rather went along with what was being developed by the President or had even lower ideas of tax necessity.

On May 4, at 9:45 a.m., I instructed Mr. Merillat to proceed with the collection of this data, and to drop all other work in the meantime.

REP

May 4, 1942
10:18 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: Hello, Bob.

R: Yes, sir.

HMJr: Well, how are they feeling in New York?

R: Well, I think - I found all the bond salesmen were not on the train this morning, so I think they were out selling bonds.

HMJr: (Laughs) I see.

R: And there's a little confusion. There's a few people, of course, who want to sell to make a showing in buying the new bonds that are offered.

HMJr: I see.

R: We're discouraging that a little bit, or encouraging the dealers to discourage it.

HMJr: Yeah, I see.

R: In the meantime, we're keeping the outstanding 2's and the 2- $\frac{1}{2}$'s at seventy-two, about where they were Saturday.

HMJr: I see.

R: And it's a little early to have much judgment about it, but all the people we've talked to have liked the new offerings.

HMJr: Good.

R: And I think you'll find them out doing a job.

- 2 -

I see Mr. Schram has just called the Stock Exchange together for a meeting this afternoon.....

HMJr:

I see.

R:

.....referring to the fact that a direct assignment to our industry by the Secretary, Mr. Morgenthau, we plan to organize our maximum efforts.....

HMJr:

Good.

R:

.....and so on. So the start's fine.

HMJr:

Good.

R:

Now we'll have to wait for the results. And a couple of banks called in, trying to gauge what they should do, trying to interpret the removal of the ceilings. I pointed out to them that they, of course, were responsible for customers' subscriptions.....

HMJr:

Yeah.

R:

.....and that they had to be practical about that. If a man only had a dollar and wanted to subscribe to ten dollars' worth of bonds, that meant if he got them, they'd have to be sold in the market.

HMJr:

Uh huh.

R:

That we were looking for investment subscriptions.

HMJr:

Yeah.

R:

But I think the thing will work itself out, and we'll have a much clearer idea by noontime.

HMJr:

Good. Good.

R:

You're back in Washington?

HMJr:

Yes, I am.

R:

Good.

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HMJr: All right.

R: Thank you, sir.

HMJr: Thank you.

May 4, 1942
11:05 a.m.

GROUP MEETING

Present: Mr. Thompson
Mr. Schwarz
Mr. Bell
Mr. Kuhn
Mr. Foley
Mr. Buffington
Mr. White
Mr. Haas
Mr. Sullivan
Mrs. Klotz

MR. THOMPSON: I have got some various types of easels for across the hall. You might like to look at them.

H.M.JR: Well, I decided on all of that very carefully.

MR. THOMPSON: I understood Banyas was suggesting building out some--

H.M.JR: Graves and I approved that. What is in there isn't what I want.

MR. THOMPSON: You have seen those?

H.M.JR: I went over the whole thing once with Graves and Banyas and Tickton. Have they changed their mind?

MR. THOMPSON: I haven't talked with them.

H.M.JR: I O. K.'d it several days ago. They came in, and Graves and Tickton and Banyas were all in there together.

MR. THOMPSON: Fine.

- 2 -

H.M.JR: Unless they have changed their minds, I haven't.

MR. THOMPSON: No, I don't think they have. I had one easel there that is in the form of turning leaves over which you might like.

H.M.JR: They had the thing all worked out and drawn and the scale drawn, and I initialed it. It must have been three days ago. You are behind time.

MR. THOMPSON: I have a sample here of what to use on the citation on those donations. There are thousands of those coming in, and many of them are ten cents and twenty-five cents apiece, and I didn't know whether you would want to go that far or not. There may be millions of school children coming in. Mr. Bell has been signing the more important ones as Under-Secretary.

H.M.JR: No, I have--

MR. THOMPSON: And I have been signing the routine ones.

H.M.JR: Why not say anything over a dollar?

MR. THOMPSON: Give them a citation?

H.M.JR: I don't like the citation. I mean, I don't like the printing.

MR. THOMPSON: Well, that was done on a typewriter. We would get it done in the Bureau of Engraving and Printing the same as the citations you gave the radio people. It would be in script.

H.M.JR: I don't like the way this is done. Did the Bureau of Engraving do that?

MR. THOMPSON: No, we did that on a typewriter.

H.M.JR: Oh, let the Bureau of Engraving--

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MR. THOMPSON: I can get one from the Bureau if you would like.

H.M.JR: Yes. I would like to acknowledge them myself.

MR. THOMPSON: And then all the letters under it are for your signature.

H.M.JR: Yes. May I see it again before they do it finally?

MR. THOMPSON: Yes.

H.M.JR: Give it to Mrs. Klotz.

MR. THOMPSON: That is just a photostat of the typewritten one.

H.M.JR: What else?

MR. THOMPSON: That is all.

H.M.JR: Mr. Bell?

MR. BELL: Here are--

H.M.JR: You know, I didn't see any publicity in the newspapers whatsoever of the transfer of the stock of Aniline and Dye. Did you?

MR. FOLEY: Not a word. It was registered last Wednesday, but I haven't read anything on it, or heard any comment on it.

H.M.JR: I was - do I sign this thing?

MR. BELL: Yes.

H.M.JR: What are these things?

MR. BELL: These are the circulars for the two issues we are putting out today. These go in the Federal

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Registers. These are the two letters for that donation that you sent in the other day, one to Patterson.

H.M.JR: Anything else?

MR. BELL: The market in the last few minutes appears to be satisfactory, and the Federal has bought some of the short bonds and only a quarter of a million of the long bonds. It is a little easy, but it is quite an active - the certificate issue that we had in April brought our average rate on the public debt down to two point three sixty-eight, so that now we will have to be issuing special securities to the investment funds at two and a quarter. That is the old age and the unemployment. I wondered if you wanted to take some of this new issue for some of the old age.

H.M.JR: Oh, yes.

MR. BELL: At two and a half?

H.M.JR: Yes, and somewhere these special funds--

MR. BELL: Yes. There aren't very many of those, but we will be getting in this month possibly two hundred and fifty or three hundred million dollars for old age. This is the month for payment.

H.M.JR: How much are these special two's we got out?

MR. BELL: Oh, I don't know, probably five and a half or six billion dollars. Oh, the special two's you mean?

H.M.JR: Like the postal savings.

MR. BELL: Oh, about a hundred million. I was thinking of the special two's to the investment accounts.

H.M.JR: Well, when you get it all together, why don't you and I sit down and let's go over it together.

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MR. BELL: All right.

H.M.JR: I haven't seen it in so long--

MR. BELL: Well, we got those down in the last issue, you remember. I think it is about a hundred million, and I would be inclined to leave most of that there.

H.M.JR: Well, what you are going to buy - you are not going to buy any of the 7-9?

MR. BELL: Oh, no.

H.M.JR: Before you do anything, will you go over it with me?

MR. BELL: Yes, sir, I will. We had a telegram from the Federal Reserve Bank of Dallas. It says, "The International Brotherhood of Boiler Makers, Iron Ship Builders, and Helpers of American Local No. 74 of Houston, Texas, affiliated with the AF of L, desires to be qualified as issuing agent for the sale of War Savings Bonds to its members. It advises, many members wish to purchase bonds in this manner to show that organized labor is buying its share of War Savings Bonds. Please advise if satisfactory to qualify this organization."

My people, I think, after talking with Graves, turned it down. They said, "Offer appreciated; but in view of Treasury's position in promoting establishment of payroll savings plans by employers, qualification of labor unions would appear to create possible conflict with such position and general qualification of labor unions should not be made." Do you agree with that?

H.M.JR: Well, I would like Houghteling to have a look at it.

MR. BELL: Houghteling hasn't initialed it. Graves has.

H.M.JR: But I would like--

MR. BELL: Ferdie and I talked about it, and we thought that they might get peeved at that.

H.M.JR: Who?

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MR. BELL: The labor unions. Maybe we should qualify them.

H.M.JR: Well, that is why I referred you--

MR. BELL: I think no harm would be done if we did it.

H.M.JR: That is why I would refer it to Houghteling. Will you, before it comes to me?

MR. BELL: Well, it doesn't come to you unless you particularly want it back.

H.M.JR: Well, I don't want it settled - I don't want to turn them down without my being consulted.

MR. BELL: All right.

H.M.JR: I don't want to turn them down.

MR. BELL: All right. Well, I didn't either, if you would like to qualify them.

H.M.JR: You do?

MR. BELL: Yes, I think we should, unless Graves has some particular thing against it.

H.M.JR: Well, how do you know how that thing may work? You may have a situation down there, if you looked into it, there may be some company that doesn't want to be qualified.

MR. BELL: Well, I take it there might be several companies involved. The local union might work for several companies.

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H.M.JR: Well, I would like Houghteling, if necessary - where is it?

MR. BELL: Houston, Texas.

H.M.JR: If necessary, I would send somebody down there from Houghteling's office to find out what it is all about. Don't turn them down without talking to me.

MR. BELL: All right.

H.M.JR: And if necessary, send somebody down.

MR. BELL: That is all.

H.M.JR: I don't know whether they will come, but I have asked Henderson, Eccles, and Nelson, and Bell and White and Haas to have lunch with me on Thursday. I have told each of these people to discuss the cost of living, so if any of you fellows have got any bright ideas, let me have them before then, see. Those cables, for instance, that you are getting, Haas, from the department stores, or anybody that has got anything else.

MR. BELL: That is all.

H.M.JR: Harry?

MR. WHITE: The first reply to your cable to Casaday about the investigation of the British voluntary savings is in. It is a very long cable. We have digested it, but I think it is interesting enough and you are sufficiently interested so that I think you might want to read the whole cable.

H.M.JR: Yes, sir.

MR. WHITE: I think he worked fast, and I think he has done a good job on it.

H.M.JR: Good.

MR. WHITE: A copy has gone to Mr. Graves. Mr. Bell

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already received a copy. If there is any one else you would like to get copies, we will send them if you will let us know.

MR. BELL: George Haas ought to have one.

H.M.JR: Kuhn wants one.

MR. WHITE: O.K.

The Polish Counselor, Financial Counselor of the Polish Embassy, called to see me at his request, and said that they had been negotiating with the State Department for a financial loan or aid, which they had expected to get much before this. The Prime Minister had negotiated it when he was here. He informally learned, I don't think he was informed, that the matter had been referred to the Treasury. He hoped that progress would soon be made, since they are much in need. I told him I hadn't heard anything about it.

H.M.JR: Neither have I. Why don't you call up Dean Acheson. You call up Dean Acheson. I can't see--

MR. WHITE: Is it Acheson or Berle? I think it is Berle's bailiwick.

H.M.JR: Is it?

MR. WHITE: I think so.

H.M.JR: I thought Acheson looked after it.

MR. WHITE: It is financial arrangements.

MR. FOLEY: It is probably Berle. There is some confusion, but I think Berle is handling most of it.

MR. BELL: Berle signs the letters on those matters.

MR. WHITE: It is Berle, I think.

H.M.JR: When I get down to business, by God, I warn

- 9 -

you I am going to talk to Acheson. If you want to talk to Berle, it is O.K. with me.

MR. BELL: Well, that will straighten it up.

MR. WHITE: Sir Frederick and Bewley were in again. They have submitted some other statements. I think that sometime this week you will want to review what has happened and what they would like in the way of further assistance. They are making more progress than seemed likely a week ago.

H.M.JR: Well, what about Assistant Secretary McCloy?

MR. WHITE: They are giving him more, I think, than he suggested here. They are now finding ways of giving him a hundred and ten million.

H.M.JR: When will I know that?

MR. WHITE: Definitely? They were in Friday and Saturday and said they were negotiating. Maybe we will hear sometime this week. They are also taking advantage of General Meyers' comments, and are dealing with Meyers, and they apparently are able to make much more progress and for much more money than they had been with Jones, and they seemed to be quite pleased, and now they feel that maybe they can handle a lot of the things that have been turned down before, so sometime - do you want to wait until there is definite information before you reexamine the whole business?

H.M.JR: They tell me that this fellow is known as Benny Meyers, and he is a smart boy.

MR. SCHWARZ: The aviation people tell me he is the best over there. He gets things done.

MR. WHITE: He has been jumped very rapidly. The Canadians - the Canadian Legation called to say that these men--

H.M.JR: Talk louder, Harry.

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MR. WHITE: The Canadian Legation called.

H.M.JR: I didn't know whether you were talking about Egypt or Canada.

MR. WHITE: Canadian Legation.

H.M.JR: ~~Yes~~

MR. WHITE: I only make one mistake a week. This is Monday. (Laughter)

H.M.JR: God, you are conceited. A week! That is something.

MR. WHITE: That is my quota.

H.M.JR: All right. I make one every morning and one every afternoon.

MR. WHITE: No, just once a week.

H.M.JR: I was talking about myself.

MR. WHITE: You do so much more than I. (Laughter) Apparently they have the idea - they have got an idea which may cost this Government very considerable sums. Now, you are meeting them Wednesday. I think that you would want to go over it ahead of time.

H.M.JR: You, Bell, and I have got to sit down on Canada beforehand.

MR. WHITE: Beforehand, that is right. Now, if you want to make it now for Wednesday morning, we will have the material ready. I think it is Wednesday lunch, you said.

H.M.JR: Will you be ready Wednesday morning?

MR. WHITE: Yes, definitely. We will be ready tomorrow morning if you prefer.

H.M.JR: Don't bluff. (Laughter)

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MR. WHITE: That was my mistake for this week. (Laughter)

MR. SULLIVAN: It would have been if you had set it for tomorrow.

H.M.JR: He has had his mistake.

What else, Harry?

MR. WHITE: You remember you wanted that document which the Lend-Lease brought over for you to initial with respect to aid to the British, and you didn't want to sign that document. It was changed and you asked for a copy of it. I looked in our files and we didn't have it. I called them up. They said they never left it, and when I said that we would very much like a copy for our files, he said he thinks he destroyed it, but he would try to reconstruct it. He did.

H.M.JR: What is that?

MR. WHITE: A memorandum which they had both got together to ask you to sign and which you were asking the President to--

H.M.JR: Oh, I think Miss Chauncey found that.

MR. WHITE: She did later?

H.M.JR: I think she photostated it and sent it back to them.

MR. WHITE: That is very interesting, because he reconstructed it, and my recollection of it is not the same as his reconstruction, but I will get together with Miss Chauncey.

H.M.JR: Miss Chauncey brought something in which I think is what it is, and I told her to photostat it and send it back.

MR. WHITE: I will check with her, but if that is not so, the reconstruction doesn't check with my memory, but there is nothing we can do about it.

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H.M.JR: Just a minute, please. Are you all through?

MR. WHITE: Mr. Foley, I imagine, will tell you about the progress of silver. We have a letter from Nelson.

H.M.JR: Yes.

MR. WHITE: That is all I have.

H.M.JR: Chick?

MR. SCHWARZ: I have a cartoon here I think you would like to see. I showed it to some of the people outside. Berryman is sending over his original cartoon for yesterday.

H.M.JR: What was it?

MR. SCHWARZ: He had hurdles for the quota campaign. You were the pole vaulter.

H.M.JR: Incidentally, I never saw the picture of Stimson and myself in the movies.

MR. SCHWARZ: On, that one that was made over there?

H.M.JR: You might inquire if they could get it and send it downstairs.

George?

(Discussion off the record.)

H.M.JR: George?

MR. HAAS: Here is a wire. This came in Friday. They have got nine hundred stores out there. As to form, this is a little bit different. It is practically the same. There is another one, too, that I don't have with me. I can send that in.

H.M.JR: We are getting these daily wires from A & P. I will read this one:

"Survey all areas today reveal decidedly less consumer comment in stores than yesterday, probably due to less newspaper comment. Remarks largely confined to questions as to when new low prices will be in effect. Occasional remark made to effect 'I won't buy much until I see what happens,' but sales figures are about normal considering suspension sugar sales, and do not reflect such an attitude generally. Better able to judge this after Saturday when country people usually make heavy weekend purchases of staples. Occasional inquiry noted as to whether ceiling prices will be alike on same commodity in all stores.

"Retail and wholesale distributors mostly concerned where manufacturers' prices advanced in February and retails did not advance until April, resulting in selling at March retails much lower than March costs, particularly in heavy lines such as soaps. This may result in merchants discontinuing May lines showing losses."

What else, George? You have got an assignment from me.

MR. HAAS: I have got one?

H.M.JR: Last night I gave you one.

MR. HAAS: Oh, yes, I am working on that and also I have a thank-you letter to Hartford.

H.M.JR: All right. Ferdie, on this Third War Edition of the U.S. Defense News, as far as we know, it hasn't gone.

MR. KUHN: I haven't seen it.

H.M.JR: Will you check? What else have you got?

MR. KUHN: I have nothing beyond those memos I sent you this morning.

H.M.JR: We sent out a - tell them about it.

MR. KUHN: There were two things. First of all, we took a little telegraphic poll of opinion last week to find out whether people in this country would be just as likely to want to see and hear a British or Chinese or Russian war hero as an American. Nobody knew and there were lots of guesses. It turned out that fifty-nine percent of the people asked in a scattering of cities around the country said they would be very likely to want to go to hear an American aviator, war hero from the far east. Fifty-four percent said they would be very likely to want to go to hear a British flier who had bombed Germany or another British war hero. In fact, they were practically even. On the Australian-Russian-Serbian and Chinese, they were less interested, in that order. I think it bears out something the Secretary was talking about last week.

H.M.JR: Here is a hero, if we can get him. He is evidently in this country.

MR. KUHN: The second of these surveys had to do with what people were doing with their extra money, and this was made last week. As I remember it, about a third of the people asked, felt that they and their neighbors were spending their extra money on essentials. About a third of them felt that the neighbors and themselves were spending - were putting the extra money into savings. Of that third, most of them felt the people were putting the savings into War Bonds. The other third had varying answers, luxury buying, foolish spending. Only three percent of the last third felt that the extra money was being absorbed by the rise in cost of living.

H.M.JR: Now, you ought to explain that these are not yes or no. It is Dr. Likert's people going into the home and sitting down and talking with the people. There was no fixed questionnaire.

MR. KUHN: This was based on actual interviews in about two hundred homes of different geographical and economic characters. There will be more complete results this week, I hope.

MR. WHITE: Three percent of their extra expenditures are absorbed by the cost of living?

MR. KUHN: No, only three percent of those asked in the last third, which is less than - about one percent, felt that extra money was being used up by the rise in cost of living.

MR. WHITE: The others pay for the rise in cost of living out of what?

MR. KUHN: But they felt they had money left over after the rise in cost of living.

MR. WHITE: You mean that their incomes had increased more than the cost of living?

MR. KUHN: That is right. They were more conscious of increased income than they were of rise in cost of living.

MR. HAAS: That checks with the figures.

MR. KUHN: The war hero one was surprising to me and I thought it was significant. They don't make any distinction between nationalities so long as they kill Germans and Japs in combat.

H.M.JR: Give me the National City Bulletin at my home, will you? On the first of May we were to have a check on a thousand families and five hundred families.

MR. HAAS: They will have that on the eleventh.

They said, however, that if you absolutely needed it they could make a shorter tabulation prior to that, but it would upset them quite a little, so if you can wait until the eleventh they would like to have that much more time.

~~H.M.JR.~~ H.M.JR: Tell them no because by the eleventh they will have another excuse. Tell them no. I want it for that luncheon Thursday.

MR. WHITE: There was a National Industrial Conference Bulletin that came across my desk within the last week or two which spoke in its first few lines of the failure of the bond sales program in mopping up savings. Did somebody see that and check up on it?

H.M.JR: It was sent to me by Professor Brown at Princeton.

MR. WHITE: Well, it goes everywhere.

H.M.JR: He sent me a copy of it.

MR. WHITE: Yes, but I mean it has a pretty wide circulation. I didn't read the thing through. It just occurred to me that somebody ought to check. If they are wrong we ought to put them straight.

H.M.JR: Get hold of it, George.

MR. SULLIVAN: The Commissioner wanted me to advise you about the Greenbrier income tax situation, the foreign diplomats. I think you asked him to have them checked up.

H.M.JR: No, somebody else must have.

MR. SULLIVAN: He wanted me to report to you that that had all been straightened out.

H.M.JR: It was somebody else.

MR. SULLIVAN: Both he and I are a little bit concerned about some of the renegotiations of Army and Navy contracts.

H.M.JR: Paul talked about that yesterday. You had better get together with him.

MR. SULLIVAN: What I thought I should do is get in touch with Patterson and Forrestal--

H.M.JR: Now, wait a minute, Paul has got an informal memo on that from me. Before you do anything will you talk with Paul?

MR. SULLIVAN: Yes. He hadn't mentioned it to me and I doubt if it is the same thing.

H.M.JR: I think it is because he said they set up a board. He spoke to somebody yesterday morning and he wanted to talk to me about it. I will see the two of you this afternoon if you will get together.

MR. SULLIVAN: I think he is probably on the Hill.

H.M.JR: I think it is the same. He is very much disturbed and the people in the Navy are very much disturbed.

MR. SULLIVAN: I think I know how to straighten it out. I will find out.

H.M.JR: Talk to Paul first and then--

MR. SULLIVAN: Have you already had a memo?

H.M.JR: No, it was to come today.

MR. SULLIVAN: I will ask to have a copy of it made.

H.M.JR: I was talking to him yesterday morning. Did you get the balance of your three-fifty?

MR. SULLIVAN: No, but we have a very good list on the Navy. Patterson hasn't yet got his list in.

H.M.JR: Could you use more names?

MR. SULLIVAN: No, I think we have plenty.

H.M.JR: Tickton has got a lot of names.

MR. SULLIVAN: Who?

H.M.JR: Tickton.

MR. SULLIVAN: That is the list we are using, you see. We never did get but a hundred and--

H.M.JR: Didn't Nelson ever come through?

MR. SULLIVAN: He came through with one first lot of a hundred and eighty-one and then another small lot and he said he would send the others as he got them so we took Tickton's list and went ahead on that. There were five hundred on that one, I think, George.

MR. HAAS: You can get more than that. He has got the complete list.

MR. SULLIVAN: I know he has, but that gives us plenty with these contractors in addition to them.

H.M.JR: Well, what I gather the Army and Navy are going to do is, they are going to see that there will be no excess profits so they don't have to be criticized.

MR. SULLIVAN: I think there is no doubt that that is what they are after. That was perfectly apparent the morning you had the conference and Patterson was reluctant to have this made until he had an opportunity to straighten out some situations.

H.M.JR: I don't blame him.

MR. SULLIVAN: I don't either.

H.M.JR: Because the situation stinks to heaven.

MR. SULLIVAN: And I don't--

H.M.JR: And the very fact that he knows we are going after them may accelerate him.

MR. SULLIVAN: It may very well, but that doesn't affect what we are doing on the other end, Mr. Secretary.

H.M.JR: Where I differ from you and Paul, if there are no war problems I am happy and I don't care how it is arrived at.

MR. SULLIVAN: I don't know why you say that is how you differ with me.

H.M.JR: I thought you said you didn't want the Navy to renegotiate.

MR. SULLIVAN: Oh, no, I want them to and I think the more they do it and the more publicity is given to it, the better it is and I am all for helping them do it.

H.M.JR: Then you and Paul and I had better sit down.

MR. SULLIVAN: I think so because I don't think what I have in mind is what Randolph has talked to you about.

H.M.JR: What else?

MR. SULLIVAN: That is all.

MR. FOLEY: We had a silver meeting on Saturday morning and we are in the process of preparing a reply to Nelson and we will be ready to talk to you about it before it goes.

H.M.JR: When?

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR
**Contingent Expenses,
Treasury Department, 1942.**

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

May 4, 1942

E. G. SAMS, PRESIDENT,
J. C. PENNEY COMPANY,
330 WEST 34th STREET.,
NEW YORK CITY

AM INTERESTED IN PUBLIC REACTIONS TO OPA PRICE CEILING ORDER
AND ITS EFFECT ON RETAIL SALES. WOULD GREATLY APPRECIATE YOUR
WIRING ME COLLECT EACH DAY FOR ONE WEEK A SUMMARY OF SITUATION
BASED ON YOUR DAILY SALES REPORTS.



HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

**Contingent Expenses,
Treasury Department, 1942.**

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

D-24117

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

May 4, 1942

L. A. WARREN, PRESIDENT,
SAFEMAY STORES, INCORPORATED,
RENO, NEVADA.

AM INTERESTED IN PUBLIC REACTIONS TO OPA PRICE CEILING ORDER
AND ITS EFFECT ON RETAIL SALES. WOULD GREATLY APPRECIATE YOUR
WIRING ME COLLECT EACH DAY FOR ONE WEEK A SUMMARY OF SITUATION
BASED ON REPORTS FROM YOUR STORES IN PACIFIC COAST AREA.

HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY

END:jm 5/4/42 

STANDARD FORM NO. 14 A
 APPROVED BY THE PRESIDENT
 MARCH 10, 1928

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

**Contingent Expenses,
 Treasury Department, 1942.**

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

May 4, 1942

T. J. GARNEY, PRESIDENT,
~~BEARS~~, ROEBUCK AND COMPANY,
 CHICAGO, ILLINOIS.

AM INTERESTED IN PUBLIC REACTIONS TO OPA PRICE CEILING ORDER
 AND ITS EFFECT ON RETAIL SALES. WOULD GREATLY APPRECIATE YOUR
 WIRING ME COLLECT EACH DAY FOR ONE WEEK A SUMMARY OF SITUATION
 BASED ON YOUR DAILY SALES REPORTS.

HENRY MORGENTHAU, JR.,
 SECRETARY OF THE TREASURY

5/4/42 

May 4, 1942

Dear Mr. Hartford:

I am writing to say that I greatly appreciate your courtesy in sending me telegraphic summaries of reports from your various stores, showing the effect of the general price ceiling order on your retail trade. Your first wire, sent last Thursday, I took with me to the cabinet meeting on Friday, and the President read it with much interest.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. John A. Hartford, President,
The Great Atlantic and Pacific Tea Company,
420 Lexington Avenue,
New York, New York.

H.M.C.
Copies to Thompson

60812v1 5/4/42

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 4, 1942

TO Secretary Morgenthau
FROM Mr. Ferdinand Kuhn, Jr.

We now have evidence showing that the American people would be just about as happy to see a British war hero as one of their own.

A telegraphic poll made in scattered cities of over 10,000 last week showed that 59% would be "very likely" to go to see an American war hero if he visited their town. Fifty-four percent would be "very likely" to go to hear a British war hero who had just taken part in the bombing of Germany. A British Commando also would be a big drawing card according to this poll. Australian, Russian, Serbian, and Chinese war heroes would be somewhat less popular, in that order.

I think the 59-54 ratio of American-British popularity is very significant and exciting, in view of your talk with the Air Marshal last week. It shows that our people make practically no distinction between an American and a British fighting man, so long as he has done a good job of killing Nazis or Japanese in combat.

I'll send you the detailed results of this poll as soon as they arrive, I hope within the next twenty-four hours.

F. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 4, 1942

TO Secretary Morgenthau
FROM Mr. Kuhn

Here is some information from Dr. Likert on the subject of what people are doing with their increased earnings. It represents the result of about two hundred interviews in homes in cities and rural areas in this part of the country.

1. 9/10 of those interviewed felt that more money is being earned now than before the war. Of these 9/10:

1/3 felt the extra money was being spent on essentials like food, clothing and household furnishings;

1/3 felt the public was saving its increased earnings, and most of these (22% to be exact) said the extra money was going into War Savings Bonds.

Of the remaining 1/3, 23% felt the extra money was being spent on luxuries; only 3% said the extra money was being absorbed by the rising cost of living, and 8% felt the extra money was going to pay off debts.

This breakdown involves some duplication, since some of those who were interviewed gave more than one explanation of where the money was going.

J. K.

May 4, 1942
2:47 p.m.

Operator: Mr. Gamble.

Ted
Gamble: Hello.

HMJr: Hello, Ted.

G: Yes, sir.

HMJr: Why in God's name do they put a woman like Mrs. Floyd Odlum on in Chicago - I've just got the ticker - after she made such a perfect ass of herself in New York?

G: I think you'd have to charge that up to Major Namm, sir.

HMJr: Well, I don't know how many times people have got to make mistakes. God, we're having troubles enough selling our bonds - after a woman makes a perfect jackass out of herself, they put her on again.

G: Yes.

HMJr: And I'd like - if it's Namm, I'd like to get word to them I'm very much displeased and I'm willing to sign the letter.

G: All right, sir, I'll see that he gets the word.

HMJr: It's perfectly asinine. I mean, here we are, starting off now for the month of May - we're off fourteen per cent off with April, and here I'm wearing myself to the bone, and this woman Odlum makes a jackass out of herself and we put her on a national meeting.

G: Yes.

HMJr: Now, I want that kind of thing stopped.

G: Well, it does not have the blessing of our organization.

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HMJr: Well, it'll have to be stopped if we've got to fire Namm.

G: Well, I'll see that this.....

HMJr: I'm not - I mean, I'm not going to stand for all of these mistakes any more.

G: Well, I agree on that point, sir.

HMJr: And I'm sick and tired of it, and I wish you'd call up Harold Graves out in Chicago and tell him so.

G: I'll do that, sir.

HMJr: I'm sick and tired of it, and if he wants to talk to me, I'll talk to him.

G: Well, I think he'll subscribe to your thoughts on.....

HMJr: Well, she's - they've just got to stop it. If it means that Namm goes, Namm can go.

G: Fine.

HMJr: But here we are - we're getting off to a lousy start, and we put a woman like that on that made a - that criticized everything that I'm trying to do here.....

G: Yeah.

HMJr:in New York, and then we put her on a national meeting in Chicago.

G: Well, she has no place in our program, I agree with you, sir.

HMJr: Well, I'm not going to stand for it any more, and you can call up Harold Graves and tell him so; and tell him that if it - I positively want to have that woman stop talking.

G: Right. Well, I'm for it.

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HMJr: What?

G: I'm for it, Mr. Secretary.

HMJr: And I'm - I mean, I can't sit here wearing myself to the bone. I've got now two days, and we're off to a bum start.

G: Yes, sir.

HMJr: And then I've got to listen to a woman like that.

G: Well, I'll see that he gets the message immediately.

HMJr: Okay.

G: All right, sir.

May 4, 1942
3:00 p.m.

WAR SAVINGS BONDS

Present:

Mr. Gamble
Mr. Kuhn
Mr. Mills
Mr. Tickton
Mr. Haas
Mr. Henry Morgenthau, III
Mr. Bell
Mr. Kilby
Mr. Ziegenfus

H.M.JR: Look, I would like a list so I could see all of last April, you see, I mean what the sales for April were.

MR. HAAS: By days?

H.M.JR: Yes, so I can look down--

MR. HAAS: Oh, I see. We can have one column for all the days and then start in the new month coming down. I see.

H.M.JR: Yes. We have got to go seventy million dollars more than April. There may be something about this two day business. Does anybody know the explanation why the F and G's were off so badly for two days?

MR. BELL: One reason might be - off from last month, you mean?

H.M.JR: Yes.

MR. BELL: No. I was going to say maybe they were smart boys and waited until the end of the month.

H.M.JR: No. Has anybody got an explanation? Well, give me something to look at, George, so I can see all of April, you see. This thing here is all right for one day, but there are an awful lot of figures to look at,

George. This sheet, I don't give a damn as between the post office and the banks. All I would like to know is that E bonds - on the E bonds we are seven hundred dollars ahead. All I really want is this. I really don't care about that. I mean, all I want is really the total, E, F, and G.

MR. HAAS: Yes.

H.M.JR: How we are running against April. I don't care about the other months. Give me E, F, and G totals as against April. Doesn't that make it simple?

MR. HAAS: Yes.

H.M.JR: Do you want to know anything else besides that? Was that all you wanted to know?

MR. Gamble: Yes.

H.M.JR: Total E, F, and G for May as against April and then if you could see what you did all through April, you could kind of look ahead.

MR. HAAS: O.K.

H.M.JR: I saw these figures and Mrs. Odlum together and that is why I got so annoyed. (Laughter)

MR. KUHN: Was she in?

MR. GAMBLE: I could agree with you on both counts but this time lag might be some indication.

H.M.JR: You don't mind me using you as a shock absorber?

MR. GAMBLE: No, sir. But isn't that a little too early, the time lag on that report, to reflect any effect of last week end's publicity attendant to the quotas? In other words, this is really the end of the sales.

MR. HAAS: It is quite a lag.

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H.M.JR: Well, when the last three days of April went ahead, I said, "That is wonderful. That is due to Roosevelt coming in." Now it is running behind and I don't know what to say. When is Harold Graves coming back?

MR. GAMBLE: Well, I won't know that for another hour and I can tell you. He has a meeting in New York on Wednesday of the savings banks.

H.M.JR: Tie a tin can on that Odlum woman, will you.

MR. GAMBLE: All right, sir.

H.M.JR: He most likely said she would give a wonderful speech out there.

MR. KUHN: Was she here?

H.M.JR: No, but she goes on in New York and makes a great speech and gets hysterical about the word "War Bonds," and then they put her on in Chicago again. I can't, as I told Ted Gamble, sit here wearing myself to the bone and make one bull after another. I mean, I am not going to stand for it any more. I have reached the limit, that is all. I am going to give flat orders. I used Ted as a shock absorber, he is such a nice fellow. How old are you, Ted?

MR. GAMBLE: I am thirty-six, sir.

H.M.JR: You can take it. All right, I will be good now. You go ahead. Do I know you?

MR. BELL: This is Mr. Ziegenfus.

MR. ZIEGENFUS: I met you last year, but of course you don't remember it. That was in the line.

H.M.JR: Well, I will know you next year.

MR. BELL: I thought I might bring him up.

H.M.JR: That is all right. Go on.

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MR. GAMBLE: Specifically this is to deal with our problem of reaching the sixteen and a half million people that we can't reach on the pay-roll savings plans, and we propose--

H.M.JR: Sit right up in front of me.

MR. GAMBLE: We propose to reach them through a canvass and instead of canvassing with the pledge as we originally had planned to do with the whole nation, we are going to canvass them with a firm purchase agreement. In instances where they have bank accounts, this purchase agreement would amount to a bank draft order.

Now, we have done that in a number of states already and have found it impractical from the standpoint of the banks, and they have not - we have had no problem of bank cooperation in connection with the bank draft order, but a great percentage of these people would not have banking accounts, so the problem as to who we were going to get a real savings of their firm agreement to purchase has been the problem we have been trying to solve.

H.M.JR: I don't know what a bank draft is.

MR. GAMBLE: It is merely an order on the bank to charge to the person's account each month for the bond and make delivery, but a great percentage of these people, a great percentage of these sixteen and a half million people, farmers, doctors, lawyers, self-employed and other professional people such as musicians and engineers and technicians would not have bank accounts, so our problem has been, as I said, to try to keep the finger on them until this matured into a bond purchase, this agreement, is consummated into a bond purchase. The matter has been presented to the bankers of New Jersey, Connecticut, and New York, and they have approved it. We have received from them a letter stating that they had approved the plan that we have asked them to follow up. Mr. Graves presented that to them. It also has been presented to the bankers of Illinois, and they have approved the plan. In each instance they were representatives of the Federal Reserves, they were there, I mean, and all of the bankers, including some small

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independent bankers. The plan calls for taking this agreement in triplicate. The original goes to the bank and the copy remains with the signer and a copy goes to the War Savings Staff worker to go into the War Savings headquarters. If after a reasonable period of time this bank does not receive a call from these people, the War Savings office will check with them and follow this up.

Now, in the direct instance of New York, because of the size of the city and the problems attendant to handling the millions of people, they are not going to be able to make an individual check on each person who signs the purchase agreement, but the bank has arranged, and through our organization in New York, Mr. Madden, they have prepared a series of follow-ups, the first of which would be directed to the person signing the agreement saying, "Dear Mrs. Smith: We are happy to note that you have selected the Corn Exchange Bank as the agency through which you intend to make your purchase. The entire personnel of the bank is at your disposal." Thirty days later, without taking into regard whether or not this purchase has been made, they send a second mailing, general in nature, so that it will not hurt the feelings of the person in case they have bought the bond there or elsewhere, simply commenting on the fact that the bank has safety deposit vault that they have made available and are in some way serving as a reminder. It has all been put into copy. I am sorry I do not have it here, but it was a reminder.

MR. KUHN: I think you missed one point, Ted. In telling about these triplicate forms, did you say what was done with the people who had no bank accounts, that they were invited to state the place - the issuing agent which they preferred?

MR. GAMBLE: He was telling about the banks because the banks and the post offices are the only way at the moment that we can absolutely follow those up and we have just gotten - just solved a little problem with the post offices, it was very simple, as to how to follow it.

MR. KUHN: Then forget my interruption, I am sorry.

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H.M.JR: The post office will cooperate?

MR. GAMBLE: Only in this way, sir. The post office is to keep a duplicate set for this bond, and they will make those sets available to us for checking. In other words, we can go in and check the names of the persons buying bonds at any post office any week and put them against the pledges or agreements to purchase; and at the end of the month, for example, we can take all of those that have not resulted in a purchase and recheck them and follow them up. It will require a little more work on the part of the War Savings Committee as a result of the post office not being able to do it, but I presume if we asked the post offices to do it, we would have to pay for it, and we probably can do it better by adding some one person to our organization to look after it. New York is the only exception to a very good plan of follow up. In other words, they are going about it a little differently there. They are going to canvass all thirteen and a half million people in New York without regard to whether or not they are on pay-roll savings plans, whether they are buying bonds.

H.M.JR: In other words, they are going ahead with the pledge campaign.

MR. GAMBLE: No, sir, they have changed the pledge campaign. It is a house-to-house solicitation of one and a half million people in New York State.

H.M.JR: When?

MR. GAMBLE: They are going to start it on June 14. In order to determine the full value, Mr. Secretary, of the house-to-house canvass or house-to-house solicitation, we have decided to let them go ahead and do that. Now, in the other states they will only make solicitations of the people that are not available in pay-roll savings. In other words, the sixteen and a half million people, they will separate them by groups; and, as a result of your call to the Secretary of Agriculture, they have agreed to permit Triple A and the county boards to do the same thing for us in the rural areas, to ask for firm purchase agreements from these people.

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H.M.JR: He is modest. I make the appointment and he goes over to see him. It is the first I had heard of his success.

MR. GAMBLE: They have agreed to do that for us. They were very cooperative in the pledge campaign. They pulled their punches a little bit, but they have decided now to go all out in this program and to send these people out to make a firm solicitation of every farmer. Then we would have the three and a half million people, the seven million people, and some states where we have already experimented - we have had good results in northern California with the lawyers through the bar associations. We make those approaches through bar associations, medical associations, teachers and so forth.

H.M.JR: Let me interrupt you a minute. You have done this in just New York and Chicago. It is such a big country, how can we get the banks and the rest of the country to doing it?

MR. GAMBLE: I will come to that, sir. We have gone a little further than that.

H.M.JR: This isn't just limited to New York, is it?

MR. GAMBLE: Oh, no, the reason I mentioned New York and Illinois is because we had the pledge campaigns already to go there involving canvassing of about one-fifth of the people in America, and we were very much interested in what the banks and post offices would do to help us and to find out whether we should attempt the solicitation or abandon that and go to work on the pay-roll plans and solicit those people not available on pay roll. That would leave about six million people in the United States, self employed and those who have some income without work, small merchants we can reach and will have to reach through permanent canvassing organizations and the same plan would apply to the people in New York State. For instance, if they had bank accounts, we would secure bank draft orders from them and, if not, we would have them designate the agency through which they wanted to buy this bond. Now, the bank would be a very simple follow-up. In the instance of savings and loan

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institutions, savings banks, and other issuing agencies such as branch insurance offices or utility pay stations, the War Savings Committee would have to pick up from those places the orders and follow them up. We have already prepared a series of three checkups, believing that that would be sufficient to bring the desired result in these purchases. There are a number of elaborations we will probably have to make in this plan, but briefly that is the plan, and if any of you have any questions to ask about it or there is any part of it you don't understand, I probably could answer a little more specifically and directly if you would ask your questions.

Now, you have had some experience on this, haven't you?

(Mrs. Klotz entered the conference.)

MR. MILLS: Well, from--

H.M.JR: May I interrupt a minute? Have your men at all seen this?

MR. BELL: No, I don't believe so.

H.M.JR: Well, who from the Treasury can take a look at it and make sure that there are no bugs in it?

MR. GAMBLE: Any bugs in it?

H.M.JR: In the Treasury.

MR. GAMBLE: Well, of course our safety valve has been our issuing agents. The bug would rest with the issuing agency. This plan does not involve any departure from our present method of distributing bonds.

H.M.JR: Do you see any danger in this?

MR. BELL: No, I can't so far. We have an understanding with the Defense Staff that whenever any of these matters involve the operating end that the literature and the memorandum go through the Public Debt Service.

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MR. GAMBLE: That is why there has been a delay, Mr. Secretary, because we have had to check with the people that are going to be charged with doing this job.

H.M.JR: Who are those people?

MR. GAMBLE: The banks, post offices, and the issuing agencies.

H.M.JR: And before it leaves the Treasury it will go through the Public Debt Service?

MR. GAMBLE: Well, it would not normally be necessary for it to.

MR. BELL: If it involves the issuing agents or instructions of that character on the operating end, it would go through the technical people, that is my understanding.

MR. GAMBLE: Yes.

H.M.JR: Well, does this?

MR. GAMBLE: The only thing that this involves is a service on the part of the issuing agent which will have to be obtained by the War Savings Committee.

MR. BELL: Well, if that is all there is to it, it doesn't need to go through the technical people.

H.M.JR: When you go out, let Broughton thumb it through and if he says this is all right, that is why I invited him in. Broughton is the man, isn't he?

MR. BELL: Yes. I have got Kilby in here.

H.M.JR: I meant Kilby.

MR. BELL: Same organization.

H.M.JR: Couldn't they just thumb it through when they go out of the room here? If they say, "This doesn't interest us, this is O.K."

MR. BELL: They could or they could wait until we get

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it in proper form.

H.M.JR: He wants to shoot tonight, don't you?

MR. GAMBLE: It won't be ready until Thursday, sir.

H.M.JR: We will just let them say, "We are not interested."

MR. GAMBLE: Yes.

H.M.JR: Just as a extra safeguard.

MR. GAMBLE: There are some states where we have already discussed this with them. There is one in Missouri wants to take a liberty with this plan that we would have to submit to Mr. Bell. It has to do with not only the solicitation but the collection by the people, the canvassers, have checks made out to the Treasury and that would be--

H.M.JR: The thing that interests me the most is when will this thing start to function in forty-eight states.

MR. GAMBLE: When will it start to function in forty-eight states?

H.M.JR: Yes, sir. You say you have got to get it out Thursday.

MR. GAMBLE: I should say that it would be three weeks before it is functioning.

H.M.JR: Go on. Why three weeks?

MR. GAMBLE: I will tell you why three weeks, Mr. Secretary. In our instructions to the people we have put another job out in front of this one, and we have given them until June 15 to have every pay roll in the nation signed up to ten percent of the total pay rolls of the company, and that is the reason why we have told them specifically that that is to take precedence over every

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phase of their operation. At best, this sixteen and a half million represents not to exceed ten percent of the--

H.M.JR: When will it be in the hands of the state chairmen?

MR. GAMBLE: Inside of five or six days.

H.M.JR: How does it get in the hands of the county chairmen?

MR. GAMBLE: Well, they have, in most instances, almost daily communication with those people.

H.M.JR: I mean, you don't deal directly with the county agent?

MR. GAMBLE: We do not deal directly with them.

H.M.JR: Well, if a state wanted to go ahead with this?

MR. GAMBLE: If a state wanted to go ahead with it, they will have full authority and full instructions from us to do it much sooner than that.

H.M.JR: I think you fellows letting everything go until June is terrible.

MR. GAMBLE: Well, I don't think we are, Mr. Secretary. Perhaps I told the story very poorly.

H.M.JR: I think letting everything go to June - here we are getting off to a bum start this month and you say June and there is always reasonable excuses, and then the first thing you know it is July.

MR. GAMBLE: This is not an excuse, sir.

H.M.JR: Well, I say reasonable excuses. Let's say you set the fifteenth of June, and I still can't get it through my head why it takes the State of New York so long to get going.

MR. GAMBLE: We have charged New York with the responsibility of lining up every firm in the State of New York by

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June 15, not only every employee on pay-roll savings but ten percent of the pay roll and that is a much more important phase of this job.

H.M.JR: Are you going to tell me about that today?

MR. GAMBLE: I was going to tell you a few things about it.

MR. BELL: Did you say it would be three weeks before all the states would be functioning or before it would get going at all?

MR. GAMBLE: It would be at least three weeks, Mr. Bell, before the people could put such a plan in operation.

MR. BELL: In any state?

MR. GAMBLE: Yes, excepting in the states where they are all set to go. California is doing this job on May 23. Illinois is doing this job and Michigan is doing this job - one on May 11 and one on May 15.

H.M.JR: Well, Ted, where are you going to get the extra seventy million dollars this month.

MR. GAMBLE: I will tell you where I think we are going to get it, Mr. Secretary. I think we are going to get it largely through an immediate response, and increase in our pay-roll savings plans. That perhaps sounds a little bit general to you, but you read all of these wires, or most of them that came from these people. Now, they have been on this job for eleven months. They have been pretty well disciplined, and I don't think that any of them have gone off half-cocked in making these assurances that they are going to reach it. It would be a very simple job for many of them to reach it with the added sale of F and G Bonds, and I dare say that there are many times that amount of money, probably three times, available in the United States if they all went out and concentrated on the sale of F and G Bonds, but that market would soon peter out, and what we are trying to do here is

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is to bring our whole army up to the line ready for the attack at one time instead of to concentrate on the month of May or the month of June or the month of July, but we are trying to come up to the point of realization of this billion dollars a month, and we are confident it can be done, but we believe it can only be done one way, and that is to take the most important thing first and level on it until we get it done, and the indications are from the reactions around the country, from the announcement of these quotas and the establishment of this ten percent goal that the state organizations are going to be able to get enough people enlisted in pay-roll savings plans to do this job. We can raise approximately five hundred million dollars a month from the pay-roll savings plan, and I believe we can beat that point by July.

H.M.JR: Had you finished on your check thing?

MR. GAMBLE: I had finished that because it was - I just high-lighted it to see if any of these gentlemen had any questions.

H.M.JR: Do you want to know any more about that?

MR. BELL: No, I think I understand it pretty well.

H.M.JR: Do you want him to talk with you tomorrow about it or let him talk with your two men?

MR. BELL: I would rather he would talk to the two men if he is going to get it out this week.

H.M.JR: Well, when they are through they can go down to your office and take a look at it. Have you got something for them to look at?

MR. GAMBLE: I can give them a copy of this plan.

H.M.JR: All right.

MR. KUHN: Dan, the whole purpose of this was to fill a gap there in the pledges which had no follow-up, provide some kind of a pinning down for every person.

H.M.JR: But that is the point. As I get it, it will be three weeks before this - before you have a man that can go out and ring a doorbell and take an order.

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MR. GAMBLE: No, Mr. Secretary, we have some of them that will be doing it all during the month, but you asked me how soon we would be able to have this plan ready for the forty-eight states. I said the states - meaning that a state that had not conceived of this job--

H.M.JR: Let's put it another way. How long before the ten important states will have this thing going?

MR. GAMBLE: The ten important states?

H.M.JR: Yes.

MR. GAMBLE: Well, the ten important states will be three weeks, because of their size. Their job is multiplied, and they couldn't do it. I mean, you can start this plan in a week in the state of Arizona, but it will certainly take three weeks to start it in the state of Michigan.

H.M.JR: What are you doing outside of New York and Chicago?

MR. GAMBLE: What are we doing? We have contacted everyone of the forty-eight states regarding this plan, have made arrangements for them - we have discussed this plan with them. You asked us to call off the pledge campaign, and we immediately had to contact some thirty odd states, and then we contacted the additional states where they had already conducted their pledge campaigns, or where they had not set a date for their pledge campaigns to tell them of this problem of reaching people that they could not reach any other way and the necessity of reaching them regularly in this program.

H.M.JR: Graves went personally to New York and personally to Chicago. Who is going to clean up Baltimore and Detroit?

MR. GAMBLE: Our state administrators. Our state administrators from California, from Michigan, from Georgia, and from Missouri, all report favorably on the plan.

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H.M.JR: Now, who watches that particularly?

MR. GAMBLE: Well, that would be watched by Mr. Graves particularly.

H.M.JR: Now, while we are right on that, can I just switch a minute? Your issuing agent thing, how many issuing agents did you add last week, do you know?

MR. MILLS: I can't answer. They run about two hundred increase a week, is my memory on it.

MR. TICKTON: That is right.

MR. MILLS: And the larger part of that increase is in the corporations, but that doesn't tell the story, because some of the corporations are small, and a small corporation with five hundred employees doesn't mean nearly as much as a large corporation that is added as an issuing agent and will cover a hundred and fifty-seven thousand like the New York Central Railway, sir, that comes in shortly, as soon as they can get the equipment.

H.M.JR: Well, how often do I get that, George?

MR. HAAS: Once a week on Wednesdays.

MR. TICKTON: Tuesdays. You will have tomorrow afternoon. The telegrams come in this afternoon.

H.M.JR: And I will have it tomorrow?

MR. TICKTON: Yes, sir.

H.M.JR: When that comes in, Tickton - I mean, if Haas wants to come, he is always welcome, but I would like you (Mills) to walk it in here, you see, and show it to me in terms of number of employees who have come in. Will it list them by companies, who come in?

MR. TICKTON: We have it if you want it that way. The Federal Reserve Banks sent us a list.

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H.M.JR: Let me take a look at the whole thing tomorrow, will you?

MR. TICKTON: O.K.

H.M.JR: You say you will be ready tomorrow?

MR. TICKTON: At this time tomorrow.

MR. MILLS: Well, for example, Mr. Secretary, there are reports here from the more important Federal Reserve Districts, but you would find it very tedious to go through, and they cover the larger corporations.

H.M.JR: I have Iceland at three thirty. Having settled Iceland at three thirty, we will settle issuing agents at three forty-five tomorrow.

MR. TICKTON: O.K.

MR. HAAS: You can set up a special table for this purpose.

H.M.JR: Well, come in and let me see what you fellows are doing. Give me some idea what is growing on this thing. Three forty-five tomorrow.

MR. MILLS: All right.

H.M.JR: Are you interested, Mr. Bell?

MR. BELL: Yes.

H.M.JR: Do you want to come in and defrost me at three forty-five?

MR. BELL: I think after Iceland you won't need to be defrosted.

(Mrs. Klotz left the conference.)

MR. BELL: It seems to me, Mr. Secretary, there ought to be an appointment of some of those corporations

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which are just about to come in, but which Tickton probably hasn't got in his statistics. I understand they are coming in, but--

H.M.JR: Well, it is worth while once a week for me to get my teeth into this issuing agent thing.

MR. BELL: Several of them agreed to come in, but they haven't settled it with their subsidiary companies, like Bethlehem and New York Central and United States Steel.

H.M.JR: Oh that, I cut out something - we will see if my figure system works.

MR. HAAS: In some cases subsidiaries came in, but the parent corporation didn't.

H.M.JR: Now, here is a clipping about the Steel Institute. I will give this to you. (Mills) I wondered if you might not tackle a representative of the American Steel Institute, and that gives you - now don't you want to get all the members of the Steel Institute - the two of you get together, see.

MR. MILLS: All right, sir, the steel industry is pretty well covered.

H.M.JR: Well, get hold of the secretary in Pittsburgh of the American Steel Institute and ask him, one, how many of your members are on the pay-roll allotment plan, and two, how many of them are issuing agents; and if that is a good hunch, you have got the secretary of the airplane industry right here in Washington, Colonel somebody, who is a so and so. Everybody belongs but Glenn Martin. You might try that by associations, just try a couple of them.

MR. MILLS: Glenn Martin is the outstanding one of the companies that is an issuing agent. None of the others are.

MR. HAAS: Colonel Jouett.

H.M.JR: Now, just for fun - you take this assignment, see. Take the American Steel Institute and Jouett of the

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airplane industry, and then I will give you a third one. The machine tool people have an institute. Miss Chauncey can give you the name of the secretary. He comes from Indianapolis. Just try those three and let them check their own industries for pay-roll deduction, issuing agents. If it works, then let's take other associations.

MR. MILLS: All right, sir.

H.M.JR: Just try three and see how it works. "We want to know, one, have all your members got pay-roll deduction, two, are they all issuing agents; and if they are not, will you, as secretary of the institute, get them for us?" If it works, take other associations. But I know that the machine tool fellows, God, they must be rolling in money, if Randolph Paul hasn't got it all. Just try it - I am sitting here, and nothing has happened on the NAM, and nothing has happened on the United States Chamber of Commerce, so try it this way for me, will you? I mean, if this works, then let's go at it through the associations. O.K.

MR. GAMBLE: Speaking of the Steel Institute--

H.M.JR: Did you get it?

MR. GAMBLE: Yes, sir.

H.M.JR: O.K.

MR. GAMBLE: You will be interested in knowing that the Jones and Laughlin people sent a man here today. Have you heard about it?

H.M.JR: No.

MR. GAMBLE: They said the president of the Company had not received your April 25 letter, but they received your wire on Friday, and they had a man here this morning to find out how to do this job.

H.M.JR: Wonderful.

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MR. GAMBLE: He called on you personally, as a matter of fact.

H.M.JR: Who was it, the President?

MR. GAMBLE: No, a gentlemen by the name of Mitchell from the Jones and Laughlin Company.

H.M.JR: You got what I meant when I was trying to associate--

MR. GAMBLE: When you mentioned NAM, yes, sir. Mr. Secretary, you asked how we expected to get this seventy million dollars in order to make the six hundred million in May. I would like to point out to you one way that we could get it and very easily and perhaps permanently. We are getting at the present time that we know of about eighty-eight million dollars a month on pay-roll savings plans, eleven million people buying a little less than five percent. If those people, or a substantial part of them, going into the new plan that will be installed this month, can be brought in at ten percent, it would mean - at the average rate of pay of a hundred and sixty-five dollars a month we would get bond purchases in time to reach that amount of money.

H.M.JR: How much are we getting through pay rolls now?

MR. GAMBLE: Eighty-eight million dollars that we know of. We have a record of the eleven million people, and we may be getting twice that amount, but we know we are getting eighty-eight million dollars, and it only represents eleven million people, and it only represents four point eight percent of their income.

H.M.JR: That is very low.

MR. GAMBLE: And certainly from the reaction that we are getting from all over the country, and I think maybe sometimes here we don't appreciate how much effect - what has happened here in the last couple of weeks has caused out in the country, I don't think it is an

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optimistic statement to say that we are going to be able to get the number of people on the pay-roll savings plan doubled and that we are going to get the percentage up. Here is a wire that came in this morning that I think perhaps you would like to hear. "The latter portion of Lux Theater Program, Columbia Network, six to seven tonight, Monday, May 6, will feature following dialogue:

"Miss Joan Fontaine: 'What's the news from the front on Hollywood's all-out battle of bonds, Mr. DeMille?'

"Mr. Cecil B. DeMille: 'I was talking with headquarters just today, Joan, and the noon communique is: "We're advancing on all fronts." The goal for the entire industry - you know - is ten percent - or more - of every one's income - for War Bonds.'

"Mr. Brian Aherne: 'That should buy a lot of tanks and planes.'

"C. B. DeMille: 'About three hundred thousand dollars worth every week, Brian. Perhaps a hundred bombers a year will be paid for by bonds Hollywood will buy through our voluntary pay-roll savings plan. That doesn't count our regular cash sales of bonds either.'

"Fontaine: 'It sounds like a system that every business might adopt, Mr. DeMille. How was it organized?'

"DeMille: 'The Motion Picture Committee for Hollywood was formed at the request of the Treasury Department to represent every part of the motion picture industry - labor, management, and creative branches. The producer, with four telephones and three secretaries, is no more important than the carpenter who builds the set or the electrician who lights it. We need everybody. D'you know, at a meeting the other day, the two best suggestions were made by a lovely extra girl who'd just come from the set in makeup, and a man who'd just come from the same set in overalls.'

"Aherne: 'In other words, Hollywood's pay-roll savings plan is democracy at work to sell War Bonds.'

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"DeMille: 'Like that carpenter I was talking about, Brian, you hit the nail on the head. In a few weeks we expect to tell the Treasury Department that every actor, stenographer, writer, makeup man, costumer, hairdresser, executive cameraman, sound technician, director, carpenter, clerk, electrician, and set dresser has signed up, that every man and woman who works in motion pictures, and the allied branches of the industry is in the pay-roll savings plan and is voluntarily putting at least ten percent of his or her salary in United States War Bonds. Not just this week, or this month, but every payday for the duration of the war.'

"Fontaine: 'And it's one production with a starring part for everyone.'"

H.M.JR: What is the pay roll of the movie industry, Ted?

MR. GAMBLE: What is the pay roll?

MR. MILLS: Is it a hundred and ninety million?

MR. GAMBLE: Yes, close to two hundred million.

MR. KUHN: And they haven't had pay-roll plans up to now?

MR. GAMBLE: Well, they have had them. They have been installing them for a couple of weeks. This ten percent thing has been contagious throughout the nation.

H.M.JR: Well, I don't want to tie up all these people. Bell, do you want to ask some things?

MR. BELL: No.

H.M.JR: Now, one other thing. Do you want to ask anything? This doesn't interfere with your sales in any way?

MR. BUFFINGTON: No.

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H.M.JR: Did you see my telegram? I want to get together with you babies before Thursday. Did you get a copy of my telegram?

MR. BUFFINGTON: No, sir.

MR. GAMBLE: He wasn't supposed to, sir. You asked Mr. Graves and myself to get in touch with Mr. Bell and Mr. Buffington.

MR. BELL: Oh, you mean about the Federal Reserve meeting.

MR. GAMBLE: Yes.

H.M.JR: Well, before Thursday I want to get in touch with you and his organization before we see the president of the Federal Reserve Banks, how we are going to do this thing. Incidentally, Dan, the presidents of the Federal Reserve are coming here. I will talk to them. So have a room. The meeting is in the Treasury. I am just carrying out your policy. They are my fiscal agents. I am serious. Let them come over here. If they are going to do this - I don't know whether you were here.

MR. BUFFINGTON: I put that in a memorandum.

H.M.JR: I don't know whether you were here, but I told Allan Sproul and Marriner Eccles, both of them, that these men would act in their capacity as my fiscal agents, and they agreed to it.

MR. BELL: Yes, that is right.

H.M.JR: So they come here. I am only carrying out the Daniel Bell policy.

MR. BELL: All right, I am willing.

H.M.JR: So start the meeting here. They might just as well--

MR. BELL: You see what--

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(Discussion off the record.)

MR. BELL: You don't want them to meet over there? You see, what they planned to do was to meet with the board.

H.M.JR: That is all right.

MR. BELL: And the security dealers were going to meet by themselves, and they were going to get together. Now, they get together here, is that right?

H.M.JR: That is the point.

MR. BELL: I understand now.

H.M.JR: They get together here, and you throw Eccles out the window. Anyway, did any of the telegrams come back yet from the big five hundred?

MR. GAMBLE: Only this one I just told you about.

H.M.JR: That isn't responsible for the script?

MR. GAMBLE: No, that was the job of the southern California association.

H.M.JR: All I want to get from you is that you have a plan, and these men will look after it and see whether they have got the checks and so forth.

MR. GAMBLE: I would like to send these gentlemen a copy, but we also have a new plan for stepping up payroll savings which I will see that everybody gets a copy of.

H.M.JR: That, I am tremendously interested in. When could I take that to read?

MR. GAMBLE: Well, you could have it this evening.

H.M.JR: If I have it the first thing in the morning, it will be all right. I don't read much at night. What

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you are telling me really is, for the month of May I have got to rely on the increase in pay-roll savings.

MR. GAMBLE: Not entirely, sir. There has already been, like this one county that wired you they had already made their quota, these fellows will go out and catch enough citizens to sell seventy million dollars, but they are not going to do that every month, and that is why we are not as concerned with June as we are in July.

H.M.JR: Well, I want to make the six hundred in May.

MR. BELL: You will have somebody going to the President if you don't make it.

H.M.JR: This letter on the front of the Hudson Valley Country Courier, I want to send that over to the President.

MR. KUHN: Herbert Gaston wrote that.

H.M.JR: Well, the suggestion I have got to make is, sleep on it. I like to have the movies once a week. What would you think of putting this on the screen, this letter, to each state, and then I was thinking I could read it or my voice or someone else's voice, and then just have softly in back something like "America The Beautiful," and let the people read it.

MR. GAMBLE: It is too long for that use.

MR. KUHN: You can take excerpts from it, can't you?

H.M.JR: Is it too near what I said? I don't think it is.

MR. GAMBLE: No, I don't think so.

H.M.JR: Would you think about it and come back at me with it?

MR. GAMBLE: Yes, sir.

H.M.JR: I need this thing, but I was just thinking, to get it in to everything - and I thought to try to

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personalize it to the people in the state of New York - I know the New York City papers ran this. The only way I saw it was through the local papers. But I was thinking if it--

MR. KUHN: Is that the Poughkeepsie paper you have there? They ran it on the front page.

H.M.JR: It is a good story.

MR. KUHN: Fine.

H.M.JR: And on that, don't forget I want a special man in Dutchess County.

MR. GAMBLE: He has been employed, sir, already.

H.M.JR: Why didn't he come and see papa?

MR. GAMBLE: I couldn't answer that.

H.M.JR: Why not suggest that both our chairman and the special fellow come and see me. I will be up on the farm next Saturday and Sunday. I have never seen our county chairman and whoever the special man is. I would like him to come. I hope to be up there.

MR. GAMBLE: This man was recommended by the New York state committee, and was told that--

H.M.JR: I would like to see both of them. I will tell you what let's do. Let's see - why not let's see this man we employed, say, on a Saturday, and the county chairman on Sunday, so I would get the dirt on Saturday, you see.

MR. GAMBLE: All right.

MR. KUHN: I asked Dick Patterson, Ted, to let the Secretary see this man before he was put on.

MR. GAMBLE: I didn't know that. I know the man was employed.

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H.M.JR: Here is a little poem I think is pretty good. Maybe I will have Irving Berlin write a little music for it.

MR. KUHN: Fair.

H.M.JR: O.K. Now, you are going to let me see that - what you are going to do on the pay-roll deduction?

MR. GAMBLE: Yes, sir.

H.M.JR: I think you had better put it in my own hand tomorrow morning.

MR. GAMBLE: All right, sir.

H.M.JR: Thank you all.

5/4/42

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At Defense Savings Meeting today, Gamble said that Patterson has employed this man and he is already working. HM Jr asked that he come to the farm Saturday so he can talk to him.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 28, 1942

TO Secretary's files

FROM Mr. Kuhn

Col. Patterson in New York has been asked to recommend a suitable man for a paid position as War Savings representative to help in Dutchess County. I have asked for some names within 48 hours.

April 28, 1942

FOLLOW-UP FOR THE SECRETARY:

You have requested that a man be stationed in Dutchess County to work with the County Chairman to make sure that we have a success in Dutchess County, particularly Hyde Park and East Fishkill.

Has this been done?

*Copy given Graves at Group -
Came back without comment -*

Follow up 5/4/42 -

April 21, 1942

TO: MR. GRAVES
FROM: THE SECRETARY

I want to remind you to have a man stationed in Dutchess County to work with the County Chairman to make sure that we have a success in Dutchess County, particularly Hyde Park and East Fishkill.

*Followed up with
Graves 4/23-*

THE WHITE HOUSE
WASHINGTON

May 4, 1942.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

One of our good friends sends the enclosed with the suggestion that the four pages should be cut to about a page and a half. The recipient of this letter said it was too long and that he did not understand it after he had read it. A good advertising man would do the trick.

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

April 22, 1942



Gentlemen:

Since the last major attack on our country was launched in May 1941, events of outstanding importance have occurred. To preserve our very existence we have been forced to wage war upon far-flung battle lines. In 1941 alone, the Government has said that during 1942 we shall produce 100,000 tanks; 20,000 anti-aircraft guns; 10,000,000 pounds of explosives; in addition to mobilizing, training and equipping millions of fighting men. Upwards of 50% 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 program 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 Treasury. 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 hand, such savings help 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.

1942 APR 29 AM 9 18

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 \$4,000,000,000, 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 2 1/2 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 setting 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 helpful 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 payroll savings plan, that AT LEAST 10% of gross payroll 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 4.8% 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 quota 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 employees 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,



Secretary of the Treasury

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 4, 1942.

TO SECRETARY MORGENTHAU

FROM ABBOT L. MILLS, JR.



SUBJECT: ISSUING AGENCY STATUS OF LARGE CORPORATIONS

PROGRESS REPORT FOR THE PERIOD SINCE THE LAST STATISTICAL REPORT ON THE STATUS OF LARGE CORPORATIONS ENGAGING AS ISSUING AGENTS. THE PROGRESS REPORT COVERS COMPANIES HAVING 5,000 OR MORE EMPLOYEES WHICH:

- (1) HAVE NOW QUALIFIED AS ISSUING AGENTS
- (2) WILL SHORTLY QUALIFY AS ISSUING AGENTS
- (3) HAVE MADE SATISFACTORY ARRANGEMENTS FOR OBTAINING BONDS FROM COMMERCIAL BANKS OR CREDIT UNIONS.*

(1) NOW QUALIFIED AS ISSUING AGENTS

<u>Name of Company</u>	<u>Number of Employees</u>
Southern New England Telephone Co., New Haven	5,343
William Filenes Sons Company, Boston	5,000
First National Stores, Somerville	12,000
Waldorf System, Inc., Boston	6,000
American Chain and Cable Company, Bridgeport	5,871
L. Banberger & Co., Newark	5,159
Prudential Insurance Company, Newark	38,444
Commercial Investment Trust, Inc., New York	6,687
Consolidated Coal Company, New York	9,998
Continental Baking Company, New York	12,011
Delaware and Hudson Railroad, Albany	8,070
Endicott Johnson Corporation, Endicott	19,324
General Aniline & Film Corporation, New York	5,994
Great Atlantic & Pacific Tea Company, New York	61,083
Crane Company, Chicago	16,711
Allis Chalmers Manufacturing Co., West Allis	18,710
Detroit Edison Company, Detroit	9,300
Mountain States Telephone & Telegraph Co., Denver	8,726

(2) WILL QUALIFY AS ISSUING AGENTS

John Hancock Mutual Life Insurance Company, Boston	11,555
Hygrade Sylvania Corporation, Salem	5,200
Berton Company, Worcester	6,010
New England Power & Service Company, Boston	20,319
Colgate, Palmolive, Peet Co., Jersey City	6,843
American Brake & Shoe Foundry Co., New York	7,200
American Woolen Company, New York	27,883
Consolidated Edison Company, New York	32,554
Continental Can Company, New York	15,562
Delaware, Lackawanna & Western Railroad, New York	15,300
General Baking Company, New York	9,614
Rand Union Company, New York	5,288
New York Central System	118,000
Phelps Dodge Refining Company, New York	15,699
Sperry Corporation, New York	30,000
U.S. Steel Corporation and Subsidiaries	298,000
E. G. Budd Manufacturing Company, Philadelphia	11,314
Bethlehem Steel Company	Over 100,000

(3) HAVE SATISFACTORY EXISTING ARRANGEMENTS FOR OBTAINING BONDS

<u>Name of Company</u>	<u>Number of Employees</u>
Electric Boat Company, Groton	7,200
The Stanley Works, New Britain	6,757
Jordan Marsh Company, Boston	5,000
Pacific Mills, Boston	5,700
Pepperell Manufacturing Co., Boston	9,000
United Fruit Company, Boston	(?)
Bath Iron Works, Bath	6,491
Nashua Manufacturing Co., Nashua	5,261
Brown & Sharpe Manufacturing Co., Providence	10,500
Bridgeport Brass Company, Bridgeport	6,316
Remington Arms Company	18,087
Bausch & Lomb Optical Company, New York	7,800
Bond Stores, Inc., New York	8,808
Cluett-Peabody & Co., Inc., Troy	6,136
Curtiss-Wright Corporation, New York	30,700
Crucible Steel Corporation, New York	24,172
Dun & Bradstreet, Inc., New York	5,700
Eastman Kodak Company, Rochester	22,000
Gruman Aircraft & Engineering Corporation	10,000
Savage Arms Corporation, Utica	5,568
American Rolling Mill Company, Middletown	40,246
Hoover Company, North Kenton	11,303
Kroger Grocer & Baking Co., Cincinnati	20,000
Container Corporation of America, Chicago	5,300
Continental Oil Company, Ponca City	6,300
Humble Oil & Refining Company, Houston	13,183

*The information presented in this progress report has been assembled from reports obtained from various of the Federal Reserve Banks. Reports from all of the Federal Reserve Districts are not as yet in, but sample results to date reveal a general similarity which should indicate the pattern for all of the Federal Reserve Districts. Generally speaking, the recruitment of large corporations as issuing agents is making reasonable progress when considered in the light of the substantial number of employees represented among the corporations which have or will shortly qualify or have existing arrangements for satisfactorily obtaining bonds outside of the Federal Reserve Banks.

Attention is called to the considerable number of corporations now obtaining bonds from commercial banks or credit unions. Inasmuch as these methods of obtaining bonds are sufficient to relieve the Federal Reserve Banks of their issuance in the cases affected, no change has been suggested in existing arrangements, and the Federal Reserve Banks properly are concentrating on the enlistment of those corporations which now make extensive use of Federal Reserve issuing facilities. With the step-up in payroll savings plan participations the bond-issuing function may overtax the facilities of some commercial banks and credit unions,

in which cases the services of the Federal Reserve Banks may be called upon. By that time, however, it may be hoped that the Federal Reserve Banks will have enlisted enough large corporations as their own issuing agents as to permit their assuming an additional lead without any serious prospect of delay in issuing bonds. In the meanwhile, it should be desirable to encourage the Federal Reserve Banks to proceed with their enlistment program as rapidly as possible and in that manner be prepared for future eventualities.

It will be observed that the bare statistical reports periodically submitted cannot show the full issuing agency picture, which is in reality more favorable than the figures reveal for the reason of the substantial number of corporations which will shortly qualify as issuing agents or which have perfected satisfactory bond-issuing arrangements outside of the Federal Reserve Banks.


ABBOT L. MILLS, JR.

WAR PRODUCTION BOARD
WASHINGTON, D. C.

May 4, 1942

OFFICE OF
DONALD M. NELSON
CHAIRMAN

Dear Henry:

I have your note of April 28
and am very happy to know of the co-
operation of the AF of L with the
War Savings program.

Sincerely yours,



Donald M. Nelson

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

RECEIVED
MAY 9 1942
U.S. DEPARTMENT OF WAR
WASHINGTON, D.C.

May 4, 1942.

Dear Steve:

Thank you very much for your letter of April 30 and your suggestion with respect to publicity on the letters sent out by President Green to the member unions, officers and organizers of the A. F. of L. These letters were read on the A. F. of L.'s national radio program Saturday night and, as a result of your suggestion, will be included in Phil Pearl's clippingsheet that goes out tomorrow.

We have also arranged with the C. I. O. and the officials of the Railroad Brotherhoods for similar letters to be made public by them. I agree with you heartily that these letters should be very helpful when read by the people on the Hill and should like you to know of our appreciation of your thoughtfulness in passing on such suggestions to us.

Sincerely yours,

(Signed) Hearg

Secretary of the Treasury.

Mr. Stephen Early,
Secretary to the President,
The White House,
Washington, D. C.

File M. H. C.

By Messenger *May 5: 25*
copy to Thompson

CS

*P.S.: Let me have some more
good suggestions*

THE WHITE HOUSE
WASHINGTON

April 30, 1942

Dear Henry:

Many thanks for your memorandum of April twenty-eighth, with the attached copies of letters sent out by President Green of the A.F. of L. Why shouldn't Schwarz or some of your helpers suggest to Phil Pearl, who handles publicity for Bill Green, that these letters be released to the Press.

And, when the C.I.O. and Railroad Brotherhood officials write their letters, their press representatives might use them in the same way. The letters from the labor leaders would make excellent material and their release might be effective in a helpful way on the Hill.

Sincerely yours,



STEPHEN EARLY
Secretary to the President

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

May 4, 1942

Dear Mr. Anderson:

Thank you very much for sending me a desk set of your Bond Drive promotion material.

As you know, I feel that you have set a magnificent example to other companies throughout the country, and we are already making effective use of your plan in our attempt to reach every company and every employed worker in our payroll savings campaign.

Sincerely,

(Signed) H. Morgenthau, *HJM*

Mr. H.W. Anderson,
Vice President,
General Motors Corporation,
Detroit, Michigan.

FK/cgk

*N.M.C. File
Copies to Thompson
Desk set put with desk books*

GENERAL MOTORS CORPORATION
DETROIT, MICHIGAN

April 30, 1942

Honorable Henry Morgenthau, Jr.
United States Treasury
Washington, D.C.

Dear Mr. Morgenthau:

I am sending you herewith your personal copy of a small desk size easel presentation of the General Motors Employees Bond Drive for Victory.

One thousand copies of this presentation are ready for distribution and Mr. Jerpe will be in communication with Mr. Gamble, of your Staff, to work out the shipping details.

Very truly yours,


H. W. Anderson
Vice President

RECEIVED

MAY 5 1942

U.S. DEPARTMENT OF THE TREASURY

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Two Business Days of May, April and March 1942
(May 1-2, April 1-2, March 1-3)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	May	April	March	May over April	April over March	May over April	April over March
Series E - Post Offices	\$ 6,359	\$ 5,476	\$ 8,786	\$ 883	-\$3,310	16.1%	- 37.7%
Series E - Banks	<u>17,904</u>	<u>18,780</u>	<u>24,327</u>	- 876	- 5,547	- 4.7	- 22.8
Series E - Total	24,263	24,256	33,112	7	- 8,856	0.0	- 26.7
Series F - Banks	2,480	4,499	3,672	- 2,019	827	- 44.9	22.5
Series G - Banks	<u>12,687</u>	<u>17,178</u>	<u>17,506</u>	- 4,491	- 328	- 26.1	- 1.9
Total	<u>\$39,430</u>	<u>\$45,933</u>	<u>\$54,290</u>	<u>-\$6,503</u>	<u>-\$8,357</u>	<u>- 14.2%</u>	<u>- 15.4%</u>

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

May 4, 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 - May, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
May 1942									
1	\$ 3,219	\$ 9,460	\$ 1,479	\$ 5,824	\$ 16,762	\$ 12,679	\$ 1,479	\$ 5,824	\$ 19,981
2	3,140	8,444	1,002	6,864	16,309	11,584	1,002	6,864	19,449
Total	\$ 6,359	\$ 17,904	\$ 2,480	\$ 12,687	\$ 33,071	\$ 24,263	\$ 2,480	\$ 12,687	\$ 39,430

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

May 4, 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.

May 4, 1942
3:50 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allen
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine, thanks.

HMJr: How's the thing going?

S: I think it's going very well.

HMJr: Well, I'm seeing the press at four o'clock.
What can I tell them?

S: Well, I think you could tell them that the outlook is that the subscriptions for the new two per cent bond will be good, and that the - although it's too early to tell on the two and a half per cent, because that obligation will be purchased largely by insurance companies and others where it's necessary to have a meeting of an executive committee and where they have additional time anyway - nevertheless, the character of the inquiries and the indications are that there'll be a substantial response to that issue, also, and that it has taken place - it is taking place without any real pressure on the outstanding 2- $\frac{1}{2}$'s, which indicates that there's a continuing market for those among the banks and others who can't buy the new registered issue.

HMJr: What happened to the long 2- $\frac{1}{2}$'s that they were so worried about?

S: They haven't done much of anything. They're now par 16-17. We bought about a million of them, two million of them, earlier this morning when there was a little pressure. It dried up

- 2 -

and there hasn't been any selling of them all afternoon.

HMJr: Well, then, your advice was pretty good.

S: So far I think it was excellent. (Laughs) Just as I was telling you about it.

HMJr: (Laughs) Well, I just wanted to let you know I recognized it.

S: Thank you.

HMJr: Well, can we close the 7-9?

S: Well, I think you'll get a better indication of that from some of the other districts, because I think they're going to come in relatively heavier than New York on those. I should say you could, but I don't know what the figures from the other districts are going to look like, and we're going to be relatively lighter and the other districts heavier than usual I should say.

HMJr: I see. Okay.

S: But that's all to the good, and that was to be expected, I think.

HMJr: Thank you.

S: All right.

HMJr: Ah.....

S: Yes.

HMJr: All right.

S: All right, sir.

HMJr: Thank you.

S: Good-bye.

May 4, 1942
3:55 p.m.

Operator: Go ahead.

HMJr: Hello.

Daniel
Bell: Four hundred and seventy-four million.

HMJr: From where?

B: Since three o'clock.

HMJr: Four seventy.

B: Yes. And that's two hundred and fifty-two million of that was in New York.

HMJr: I see.

B: And that's lower than we've ever closed one, and I wonder if we shouldn't wait until the four o'clock report.

HMJr: I think so.

B: Yeah.

HMJr: I think so.

B: Well, that ought to be along about four-thirty.

HMJr: I think we better wait. I'm seeing Will Hays at four-thirty. I'll be here anyway until a quarter of five or five-thirty.

B: All right. Well, I'll telephone you just as soon we get it.

HMJr: Well, I tell you - do you get a report from Chicago?

B: Only got two hundred and twenty-two million from all the other banks, because Continental can't be in there - that's two hundred and fifty million.

- 2 -

HMJr: Why don't you call up Young on the phone
and find out.

B: All right.

HMJr: I'd call him up on the phone.

B: All right. I'll do that right away.

HMJr: If you please.

B: All right.

May 4, 1942
3:57 p.m.

Randolph
Paul:

Hello.

HMJr:

Randolph.

P:

Yeah.

HMJr:

Good afternoon.

P:

Yes, sir.

HMJr:

I'm seeing the press at four o'clock. Is there anything that I could tell them, or should I just keep my mouth shut? Hello.

P:

Well, I'm just thinking.

HMJr:

I don't know what happened.

P:

Well, what happened this morning was that by a very even vote they turned down our suggestion that the capital stock tax be repealed.

HMJr:

Yeah.

P:

We're now talking about the post-war funds, but I don't think I'd say very much about that because it's very incipient as so far.

HMJr:

Yes.

P:

The discussion is very incoherent and incipient, and I don't think I'd say much about that.

HMJr:

Yeah.

P:

You might express regret that they turned down our proposals on the capital stock tax. We asked that they put an extra one per cent on the surtax and get rid of that rather cumbersome nuisance tax.

HMJr:

No, I wouldn't want to comment on those things unless you were here.

P:

No, I don't think - and in the second place,

- 2 -

I wouldn't criticize the committee either.

HMJr: Well, what about what they've done so far that we're running behind on our income?

P: Well, we're running behind about five hundred million on the corporate gross; but, of course, against that must be offset - some say that we'll get more on the individual taxes, so that I should say the net was around three hundred or three hundred and fifty million.

HMJr: Well, do you think I ought to say anything on that?

P: Well, you might express some hope that they won't fall behind on the individual.

HMJr: Well, the trouble - then they'd say, "Where would you raise it, Mr. Morgenthau?"

P: Then you'd be up against the sales tax.

HMJr: Yeah. I think I'd better simply say this, that I'm watching the thing very closely. I don't care to say anything this afternoon, but I may have something to say later on.

P: Yeah. Well, I think that's safe.

HMJr: What?

P: I said I think that's safe.

HMJr: Well, I don't want to shoot from the hip on this thing, because if I say something and criticize Doughton at this time - I mean, when - when I get - I think whatever I say we should weigh very carefully.

P: Yeah, I do, too.

HMJr: What?

P: I do, too. I agree with you.

HMJr: I mean - don't you?

- 3 -

P: Yeah, I agree with you.

HMJr: All right. I just wanted to make sure.

P: Okay.

HMJr: Thank you.

May 4, 1942
4:19 p.m.

HMJr: Bob.

Robert
Patterson: Yeah.

HMJr: This is a different kind of a call than I've
ever made before. Hello.

P: Yeah.

HMJr: I have a cousin by the name of Colonel George
C. Haas, H-a-a-s, of 63 Wall Street. He's a.....

P: What is the name?

HMJr: George C. Haas, H-a-a-s.

P: Yeah.

HMJr: Sixty-three Wall. He was a Colonel in the last
war, and if you'll look him up, you'll see that
he had a damn good record. He's about fifty-
four, I think, or fifty-five. I wrote Mr. Stimson
about it, and he turned me down. I was urging -
well, Haas will take, oh, he'll take most any-
thing. I mean, he's crazy to get in this, see.
He's a product of the last - First Plattesburg -
and if you'll look up his record you'll see during
the war he really was good.

P: Yeah.

HMJr: And here's a man crazy to do something. He'd
make a wonderful instructor, and it seems a
shame, really, not to use his services.

P: Yeah.

HMJr: He's really a soldier.

P: Yeah.

HMJr: And I say - well, Stimson turned me down in a
letter May 2nd. I'll send you over a copy of it,
so if you want to see it.

- 2 -

P: Yeah.

HMJr: What?

P: Yes, I would like to.

HMJr: Supposing I send you over my letter to Mr. Stimson and his turning it down.

P: Well, I can find those here.

HMJr: Can you?

P: Yes.

HMJr: Well - as I say, I wouldn't - I know that you people can't take him for active service. I'll take that for granted, but certainly as an instructor in artillery, the man is really good. He unfortunately gave up his Reserve Commission three or four years ago. He was a full Colonel.

P: Yeah.

HMJr: And he let it slide. That's his trouble.

P: Of course, the Secretary already having acted makes it rather difficult.

HMJr: I know. Well, this is what he says, "I assure you that this is not to be considered a permanent rejection. Colonel Haas' qualifications have been recorded," and so forth.

P: Yeah.

HMJr: He says it's not a permanent rejection. I don't know who wrote the letter for Stimson, but it doesn't look like his signature.

P: (Laughs)

HMJr: It doesn't.

P: Well, all right, I'll take a look at it.

- 3 -

HMJr: Do you mind?

P: Not at all. Not at all. I'll look it up.

HMJr: I say - I know it's sort of after the horse is gone, but.....

P: I'll look it up.

HMJr:he is good material.

P: Right.

HMJr: Thank you.

P: Right.

HMJr: Will you let me know?

P: Yes. Yes.

HMJr: One way or the other.

P: Yes, you bet.

HMJr: Thanks.

P: Good-bye.

May 4, 1942
4:55 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Mr. J. L.
Houghteling: Lawrence Houghteling talking.

HMJr: Go ahead.

H: In the matter of the - that space problem
of the C.I.O.

HMJr: Yes.

H: I spoke to you about it Saturday.

HMJr: Yes.

H: It seems that Jesse Jones agreed to let them
have the ground floor of the - that building.....

HMJr: Yeah.

H:which is pretty badly broken up and the
RFC Mortgage Company were going to use for
storage space, which only had five thousand
feet and wouldn't do for them at all. They
told him so, and he said he'd talk it over
with Husbands, the head of the RFC Mortgage
Company, which he's doing now.

HMJr: Good.

H: And they asked if - they said they thought
a word from you would just turn the scale
if you were willing to do it.

HMJr: Well, I don't want to do it tonight. If
nothing happens in the morning.....

H: Yeah, all right.

HMJr: I think - let me think about it.

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H: Yeah, fine. All right.

HMJr: All right. Thank you.

H: All right, sir.

HMJr: Good-bye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 4, 1942

TO Secretary Morgenthau
FROM Mr. Hase
Subject: The Business Situation,
Week ending May 2, 1942.

Summary

(1) The general OPA ceiling order, which marks a drastic step in wartime price control, has already begun to affect retail prices. Various retail store chains have adjusted prices to the ceiling levels to avoid a slow-up in sales, and competition will doubtless compel others to reduce prices before May 15.

(2) Some slackening in retail sales had occurred in advance of the OPA order. Department store sales in the week ended April 25 were 13 percent above 1941, as compared with an average gain of 26 percent in the four weeks of March. Previous heavy stocking by consumers, particularly of clothing, was a contributing factor, as well as the earlier Easter. Sales by men's clothing stores in March, for example, were 78 percent higher than in March 1941.

(3) Prices of primary farm products, which are not directly affected by the OPA ceiling order, continued to rise in April, carrying the farm price index to a new war-period high of 150, as compared with 146 in March. Costs of goods bought also rose, and farm prices in April averaged 99 percent of parity.

(4) Factory employment rose less than seasonally in March, partly due to a further moderate decline in the number of workers employed by the automobile industry. Factory payrolls, however, showed a further gain of more than 2 percent to a new record high. Estimated average weekly earnings of factory workers also continued to rise, and in mid-March stood nearly 24 percent above year-earlier levels.

(5) Despite the recent seasonal improvement in the flow of steel scrap, the President of the Bethlehem Steel Company predicts that the scrap problem will be worse next winter than last. As a consequence, it is urged that nothing be allowed to interfere with the expansion of facilities for pig iron production.

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- 2 -

General price control order to stem rising living costs

Dominating business developments last week was the OPA general price ceiling order, instituted as one part of the President's program to combat the rising cost of living. The regulation will place ceilings on retail prices, effective May 18, and on prices at other stages of distribution, effective May 11, all at maximum levels of March. The supplemental rent control order, effective July 1, will extend control of rents from the present coverage of areas housing 7 percent of the country's population to areas housing 64 percent.

The steep rise since early 1941 in wholesale prices and living costs, and their levels prevailing just before the general price order was issued, are shown in the upper half of Chart 1. Unless prices of farm products exempted from direct control by the order continue to rise, the regulation should have the effect of lowering the all-commodity wholesale price index somewhat, as has been the experience in Canada. It will be noted (lower section of Chart 1) that the all-commodity index in recent weeks has risen somewhat above the highest March level, recording a gain of 1.2 percent in the week ended April 25 as compared with the level in the week ended March 28.

Administrative problems

Major problems of administration are raised by the price order. They include, among others, the alleviation of the price squeeze on retail firms which stand to suffer from the lag between retail and wholesale prices, and the devising of a formula for use in pricing seasonal goods. As a means of enforcing the retail ceilings, 350 "professional shoppers" under the Bureau of Labor Statistics will make sample checks of prevailing prices for comparison with the maxima recorded in March. Additional shoppers will be trained to cooperate with each of the 10,000 local price and rationing boards.

Independent food dealers protest price squeeze

Certain groups of retailers have taken strong exception to the failure of the OPA to provide for the price squeeze which will result from the delay of retail prices in catching up with replacement costs. Plans for mass meetings to seek relief have been announced in the press by the National Association of Retail Grocers and the New York State Food Merchants Association. Protests have been made also by the National Retail Dry Goods Association.

Trade estimates of the lag between March retail food prices and wholesale replacement costs range from 9 to 12 percentage points. This range would seem to be borne out by the relative wholesale and retail price increases from January 1941 to March 1942, the period during which most of the rise in living costs has occurred. (Refer to Chart 1, upper half.) In that period the BLS wholesale price index for foods increased 30.4 percent, whereas the food component index of the BLS cost-of-living series, based on retail prices, increased 21.3 percent.

In issuing the order, the OPA admitted the existence of a retail price lag, but stated that no single remedial formula could be found, since the lag is neither uniform nor universal. Remedial action by adjustments of manufacturers' and wholesalers' prices, and other means short of raising retail prices were promised. On the other hand, the OPA stated that retail prices on some items have had a relatively greater increase than wholesale prices; and that the various other costs of retailers have not increased as rapidly as wholesale prices.

Government subsidies likely

Meanwhile, there are indications that the Government will carry some of this burden through subsidies, as have the British and Canadian Governments in their price control programs. In establishing ceilings on coal prices, the OPA announced last week that plans were being formulated with the RFC to provide for increases in transportation costs, so as to prevent retail prices from rising above the level in the base period.

In the canned foods industry, prices paid for important fruits and vegetables to stimulate this year's production will make it difficult to maintain the retail price ceilings effective under the new order without some form of subsidy.

Some stores adjusting retail prices now

Many stores, on the other hand, have acted quickly to make their prices conform to the May 18 ceiling level. A press report states that all Montgomery Ward & Company stores and mail order houses will open for business today with every price in agreement with the OPA order. The summer "flyer" to be mailed this week, it was stated, will be priced in strict compliance with the order, as will the general fall and winter catalogue which will be issued in July.

Other companies in the retail, wholesale, and manufacturing fields reported to have adopted the ceilings ahead of schedule include the Kresge department store at Newark;

Butler Brothers, Chicago dry goods wholesalers; Kramer Brothers, manufacturers and distributors of hosiery; and Cluett, Peabody and Company, manufacturers of Arrow shirts. Eastern Cooperative Wholesale, Incorporated, the largest wholesale cooperative in the East, has announced immediate adoption of the ceiling level, and has recommended similar action to the 230 retail cooperatives which it serves in 11 States.

Basic commodity prices hesitate

Prices of basic commodities were somewhat unsettled last week, awaiting announcement and clarification of the maximum price regulation. The net result was a further levelling out of the two basic price indexes. (See Chart 2.) A decline in hog prices brought the average down to \$14.02 from the 16-year high of \$14.40 three weeks ago. Steer prices also declined noticeably. Butter prices, on the other hand, continued their broad rise, buoyed by a renewal of Government buying.

Grain prices advanced moderately, wheat rising in response to announcement of the Department of Agriculture's loan rate for the 1942 crop. The basic rate will be \$1.14 a bushel at the farm, 16 cents higher than the rate for the 1941 crop. The actual loan rate for No. 2 hard winter wheat at Kansas City would be \$1.27, compared with a price range of \$1.12 $\frac{1}{2}$ - \$1.19 on Friday.

The BLS all-commodity index, covering wholesale prices of nearly 900 commodities, rose 0.3 percent in the week ended April 25, to 98.6. The index has advanced 31.5 percent since the pre-war month of August 1939.

Higher prices paid farmers in April; parity prices up

Average prices received by farmers as of April 15 were substantially above those of March, exceeding even the high January levels. The weighted average price index of the Department of Agriculture advanced to a new war-period high of 150, as compared with 146 in March. It was 36.4 percent higher than in April 1941.

Prices paid by farmers on April 15 also were somewhat higher than in March. As a net result, prices of farm products averaged 99 percent of parity, 2 points higher than in March, and the same as in February. The index of farm wages, which are not included in the index of prices paid, advanced 6.0 percent in April.

The price movements for farm products as a group and for important individual commodities in the first four months of 1942, and in the full years of 1940 and 1941, are shown in Chart 3. The April rise for all farm products reflected marked price increases for meat animals, cotton, and fruit. Prices for truck crops also advanced strongly.

Employment and payrolls higher

Factory employment rose slightly in March, but the gain, amounting to less than 1 percent, was less than seasonal. One factor tending to retard the normal seasonal rise was a further moderate decrease in employment in the automobile industry for the fourth consecutive month. As a result, employment in automobile plants in March was 182,000 below year-earlier levels.

On the other hand, total civil non-agricultural employment in mid-March was more than 2,500,000 higher than in the corresponding period of 1941, and approximated 40,300,000. Since March 1941 all states except Michigan have shown gains in non-agricultural employment. The largest gains were shown by Washington and Arkansas, with increases of 27 and 24 percent, respectively.

Due in part to the dislocations caused by conversion of production facilities such as in the automobile industry, total factory employment in March was still below the peak reached last October. In contrast, however, factory payrolls have continued to rise substantially and in March reached a new record high. (See Chart 4.) Thus, since last October factory payrolls have risen 9 percent in the face of a slight decline in employment. This has been due to longer working hours, overtime payments and higher wage rates of those employed.

Average weekly earnings of factory workers have continued to expand, and for mid-March they are estimated at nearly 24 percent above year-earlier levels and 47 percent above the pre-war levels of August 1939. (Refer to Chart 4.) The extended upswing in factory workers' incomes has been an outstanding factor in the rising tide of national income payments since the Defense program got under way. The President, in his message to Congress, listed the stabilization of worker's remuneration as one of the cardinal objectives of present national economic policy. However, it remains to be seen whether the program thus far envisaged for wage stabilization will in fact achieve the objective indicated. A great deal would appear to depend on the attitude of the War Labor Board.

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Department store sales gain narrows

After running 26 percent above year-earlier levels in March, department store sales in the 4 weeks ended April 25 were only 9 percent above the corresponding period in 1941. Sales during the latest period available, the week ended April 25, were 13 percent above year-earlier levels. (See Chart 5.) This gain was less than the intervening advance in prices, thus indicating a moderate decrease in the unit volume of goods sold.

While last week's sales figures are not yet available, Dun and Bradstreet reports that the recent price freezing order had little effect on retail trade, although a decided lull is said to have occurred in advance wholesale buying. Some press reports over the weekend, however, indicated that an appreciable slackening in retail sales had occurred.

Clothing stores led March retail sales gains

Some slackening of retail buying, particularly of clothing, could probably have been expected shortly in any event, in view of the unusually heavy volume of sales in March by certain types of stores. The increases in sales of independent retail stores in March 1942 over March 1941, based on Census Bureau figures, are shown in Table 1, attached. Although all store groups except motor vehicle dealers and filling stations showed gains, the extent of the gains varied widely. Heading the list were men's clothing and furnishing stores, with a gain of 78 percent. Next in order came family clothing stores and shoe stores, with increases of 43 and 37 percent respectively. At the other end of the list, motor vehicle dealers' sales were 75 percent below year-earlier levels as a result of the production restrictions and rationing schemes in effect. This served in large part to reduce the gain to 12 percent for all groups.

Further steel scrap difficulties predicted

Although the flow of steel scrap has shown seasonal improvement, and has contributed to the recent moderate gain in steel operations, the President of the Bethlehem Steel Company last week predicted that the steel scrap problem would be even worse next winter than last. Consequently it was emphasized that the steel industry will be dependent more than ever on an increase in pig iron production to maintain steel ingot output.

As a result of this situation, the hope was expressed that nothing would be allowed to interfere with the expansion of facilities for the production of pig iron. The latest development in this connection occurred last week, when a new blast furnace was blown in by the Tennessee Coal and Iron Company, which will increase that company's pig iron capacity by 17 percent. Indicative of the heavy demand for steel scrap, consumption of scrap rose to a new high of 4,840,000 tons in March -- an increase of about 4 percent over the corresponding month in 1941.

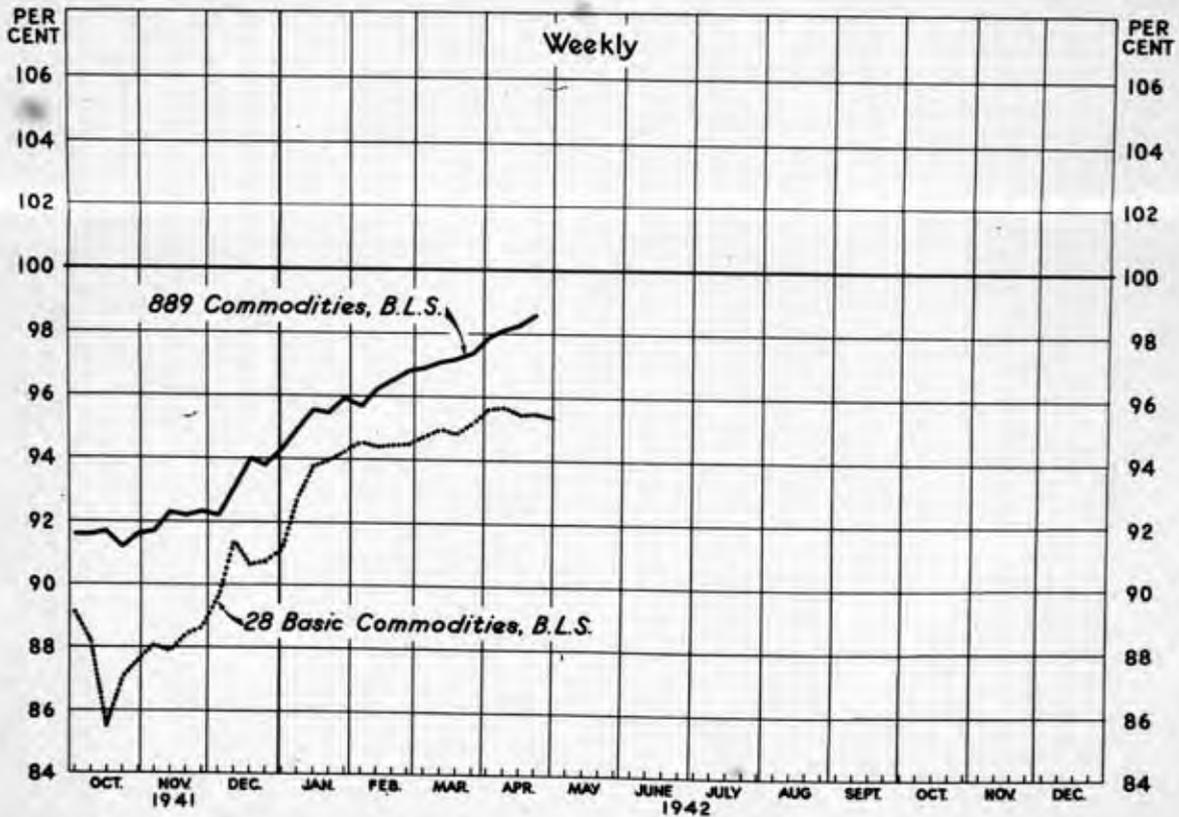
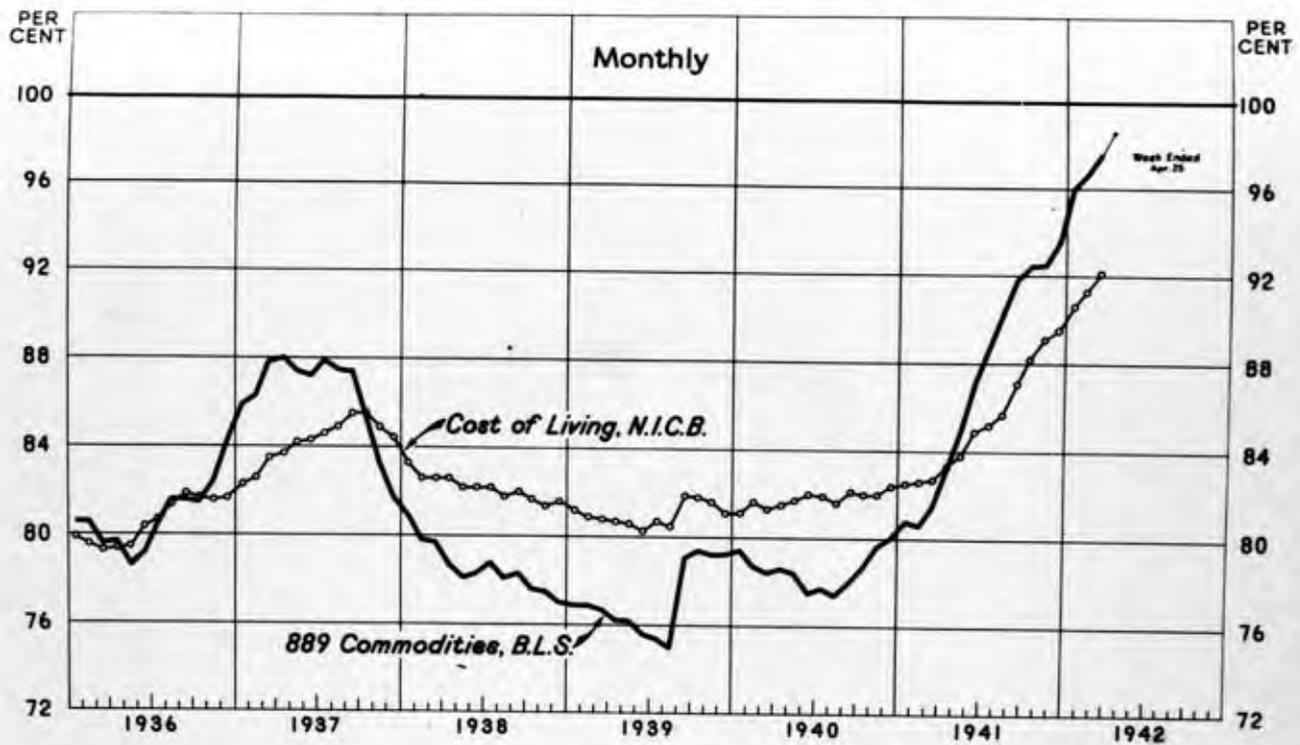
Table 1

Retail sales by selected independent store groups
(Percent change, March 1942 over March 1941)

Type of store	Percent change March 1942 over March 1941
Men's clothing and furnishing stores	78
Family clothing stores	43
Shoe stores	37
Hardware stores	34
Women's ready-to-wear stores	32
Dry goods and general merchandise	28
Heating-plumbing equipment dealers	27
Department stores	26
Sporting goods stores	26
Jewelry stores	26
Liquor stores (packaged goods)	25
Radio and musical instrument stores	22
Lumber-building materials dealers	20
Furniture stores	19
Eating and drinking places	17
Drug stores	16
Food stores	12
Household appliance dealers	8
Filling stations	- 2
Motor-vehicle dealers	- 75
Total	+ 12

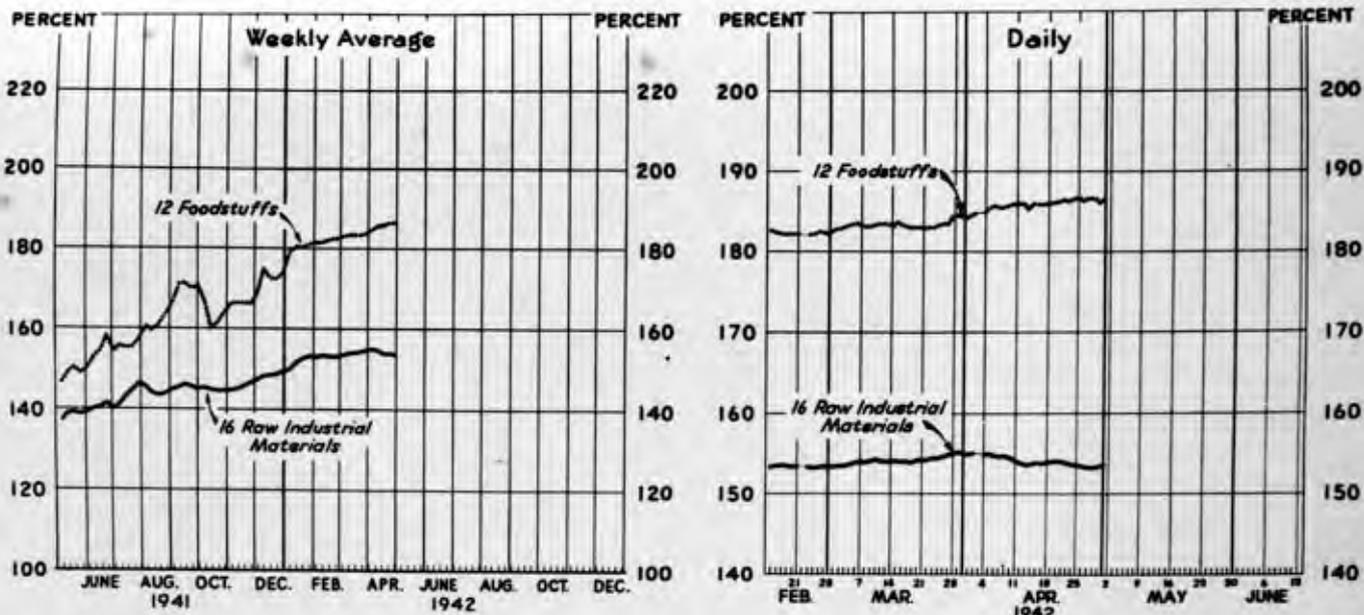
COMMODITY PRICES AND COST OF LIVING

1926=100



MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

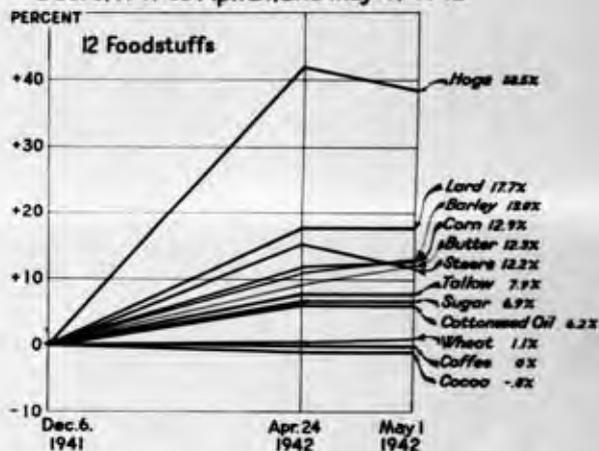


PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES*

Aug. 1939 to May 1, 1942

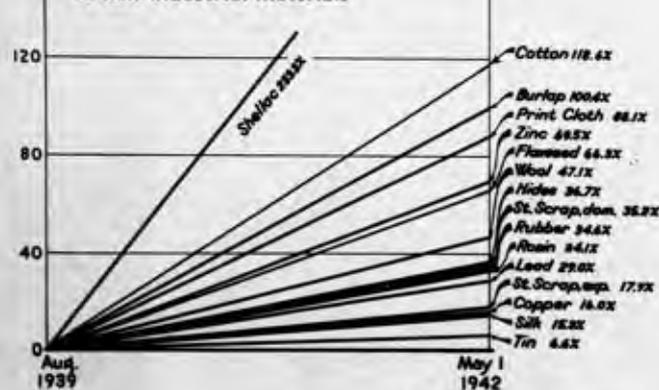


Dec. 6, 1941 to Apr. 24, and May 1, 1942



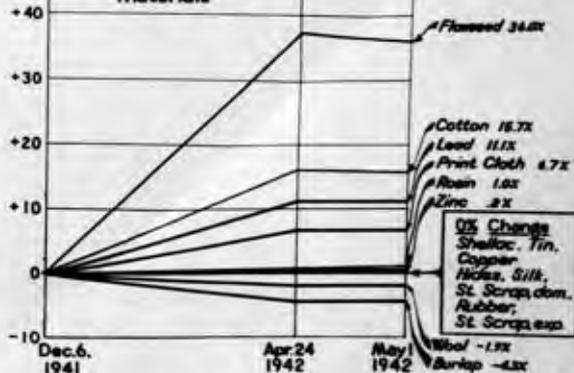
PERCENT

16 Raw Industrial Materials



PERCENT

16 Raw Industrial Materials

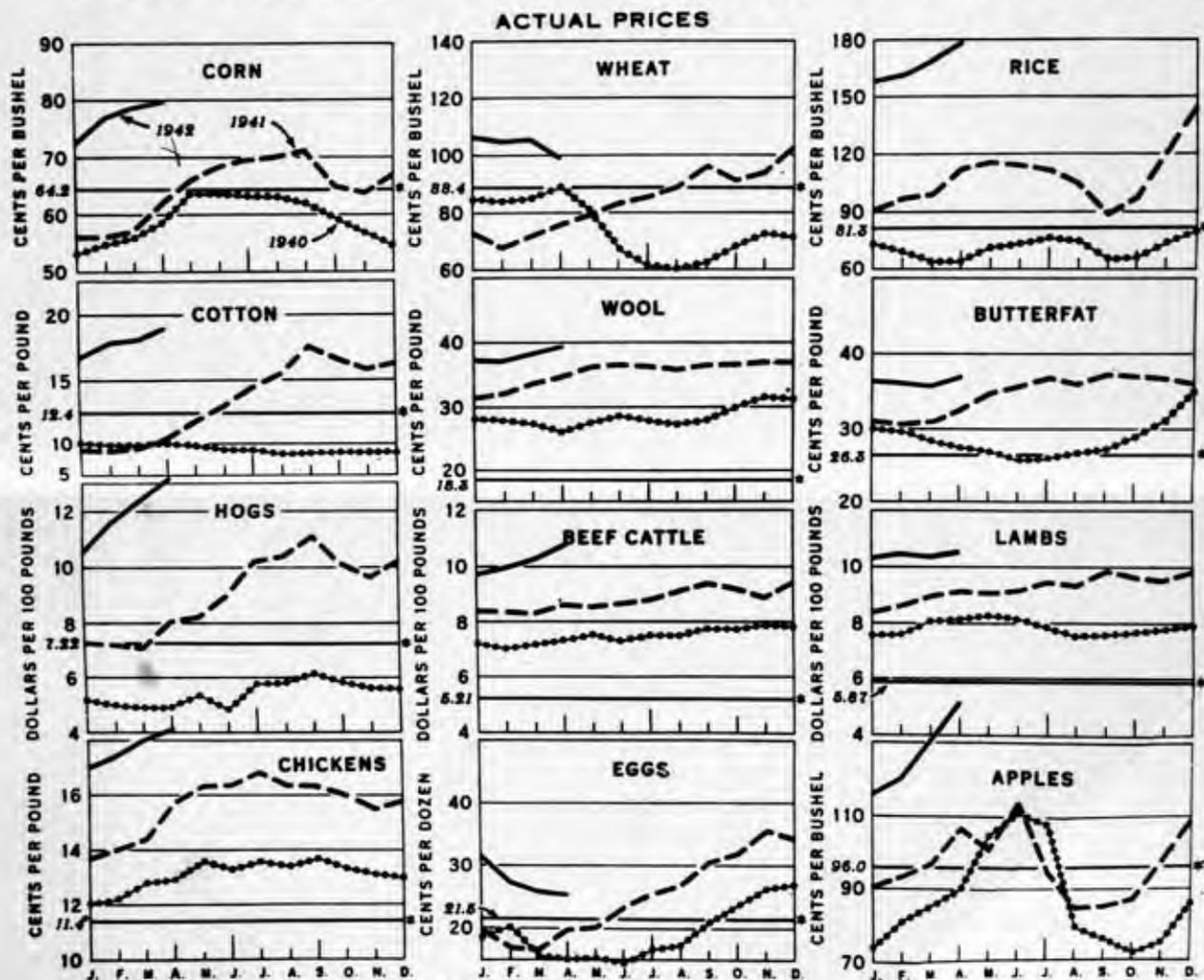
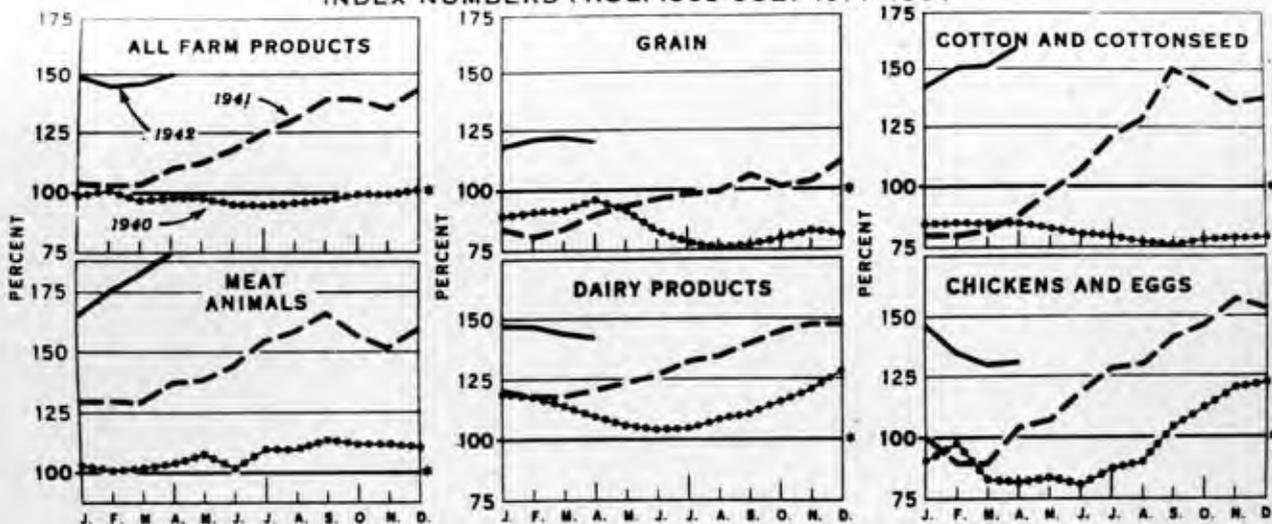


*Black lines indicate commodities under price ceilings or other control

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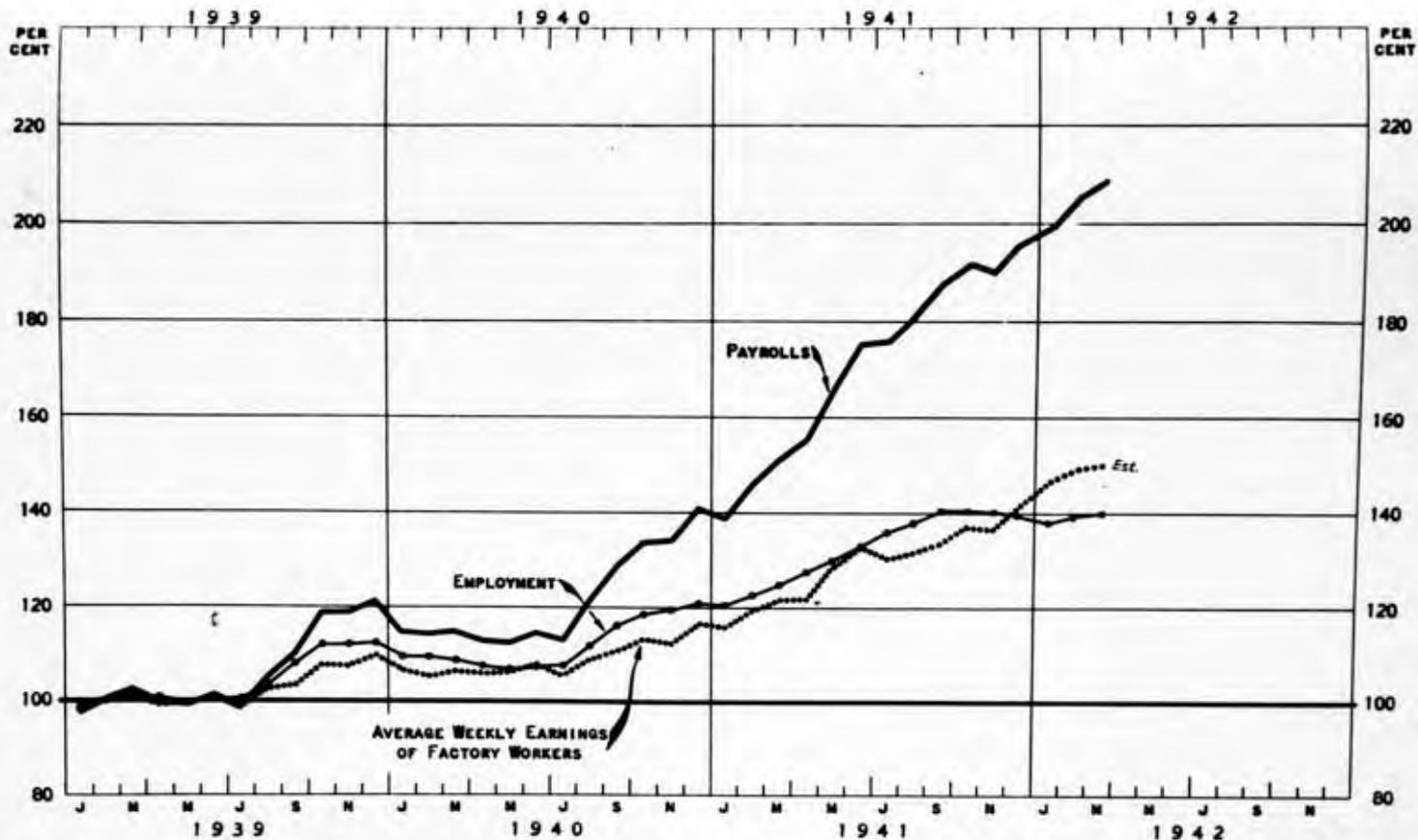
AVERAGE PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES

INDEX NUMBERS (AUG. 1909-JULY 1914=100)



• 8-YEAR AVERAGE, AUGUST 1909-JULY 1914

FACTORY EMPLOYMENT, PAYROLLS AND WAGES
 FIRST 6 MONTHS OF 1939 = 100, UNADJUSTED



SOURCE: B.L.S.

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

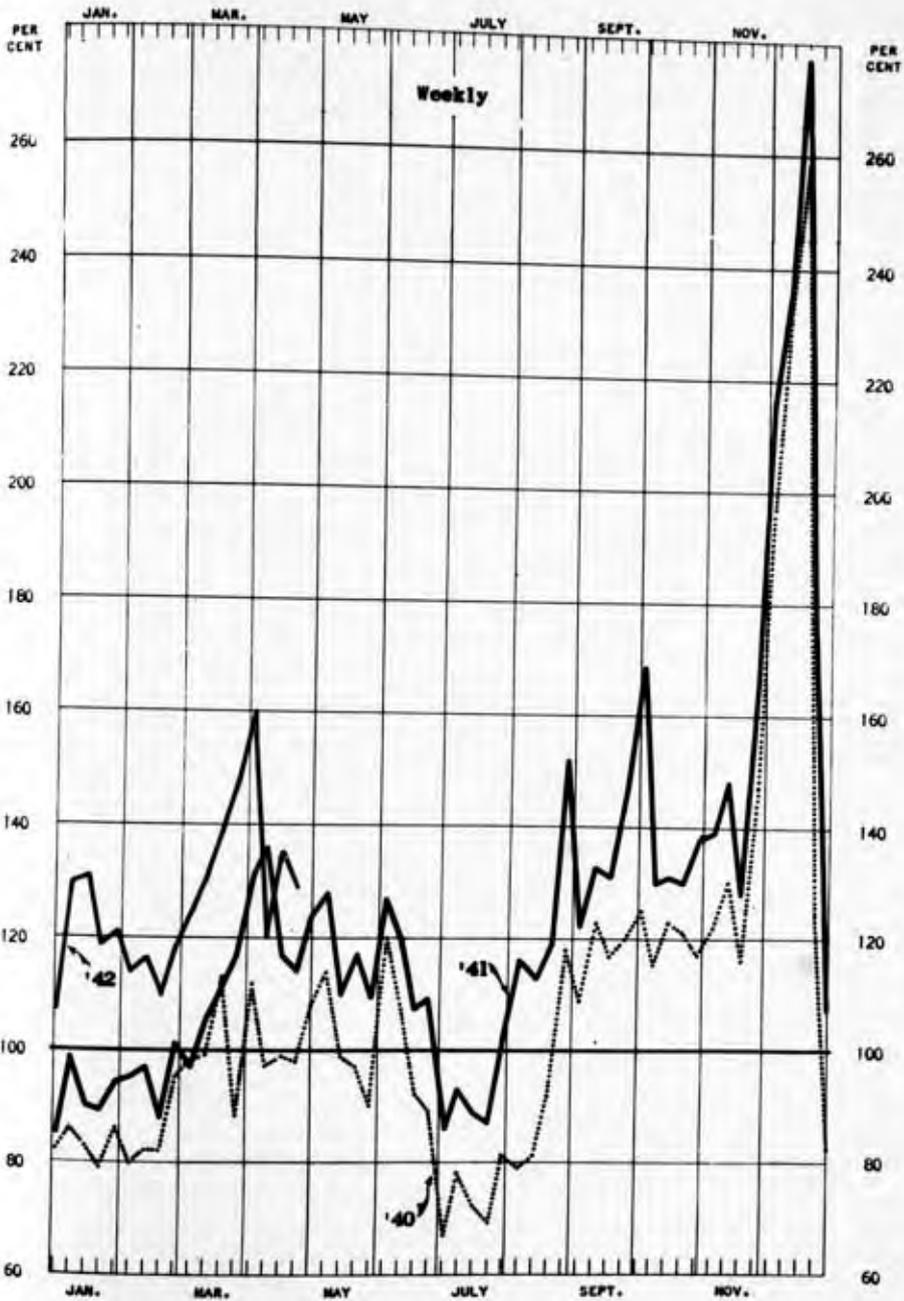
C - 414

Regraded Unclassified

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Chart 4

DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 4, 1942

TO Secretary Morgenthau

FROM Mr. Foley

Subject: Experience of Foreign Funds Control Representatives in Latin America

Three Treasury representatives have recently returned from Latin America, where, in conjunction with representatives of the State Department and Board of Economic Warfare, they worked with our diplomatic and consular missions in an effort to ascertain to what extent our program of economic warfare is succeeding in Latin America. The reports of these three representatives (namely, Norman E. Towson who visited the countries on the east coast of South America - Venezuela, Brazil, Argentina, Uruguay and Paraguay; James H. Mann who visited Central America - El Salvador, Honduras, Nicaragua, Costa Rica and Panama; and B. E. L. Timmons who visited Mexico and Cuba) indicate the following:

(a) Experience of mission in South America.

With respect to the countries visited in South America, it was observed that with the notable exception of Argentina, they had all adopted decree laws designed in form to carry out the objectives of economic warfare outlined in the resolutions adopted at the Rio conference. It was perfectly clear, however, that the steps being taken to administer and implement these decrees were such as to make the decrees substantially ineffective. Contributing factors were the absence of any expert technical knowledge on the part of the respective government officials administering the decrees, lack of capable personnel available to administer the decrees (including the lack of satisfactory persons who could act as supervisors of Axis firms), and obvious intention (particularly in the case of Paraguay) to withhold further action pending the disclosure of what further reward might be expected from this country. Argentina, of course, for political reasons designed to maintain "strict neutrality" and due to lack of good faith, has taken no constructive action and has, in many instances, collaborated with or at least condoned acts designed to aid the enemy.

Our Proclaimed List program has of course had some favorable effect in its relation to the activities of Axis firms in these countries. However, it is clear that our program of economic warfare in Latin America will not be really successful unless and until we obtain the wholehearted cooperation of the Latin American countries, in adopting and effectively administering real local control. We are not getting this wholehearted cooperation from any of the South American countries visited.

(b) Experience of mission in Central America.

The Central American countries, with the possible exception of Panama, are not aware that measures taken to carry out a program of economic warfare against the Axis are designed to protect their own security. Rather they have the attitude that such measures are being taken merely as a favor to the United States. Furthermore, these countries feel that they have complied with the provisions of the resolutions adopted at the Rio conference, recommending severance of financial and commercial transactions with the Axis powers, by the mere adoption of laws or decrees. It appears that little thought is given to administration. Of course the local government officials gave glowing reports concerning the administration of their laws. However, investigation did not bear out such reports.

It was the observation of our Central American Mission that many of the local governments, after enacting measures designed to effectuate the purposes of the Rio resolutions, were unable to determine just what steps should be taken to put such measures into effect, and that our diplomatic missions were unable to give them much guidance concerning the steps which should be taken.

The local government officials appeared reluctant to resort to rigorous measures to break the influence and activities of those persons known to be engaged in activities inimical to our war effort. There appeared to be considerable reluctance to adopt the "vesting" technique or the "forced sales" method to eliminate these undesirable persons from their economy.

(c) Experience of mission in Mexico

The mission to Mexico found that the Proclaimed List was having little or no effect on the large number of German firms included therein. Many of these firms are large and play an important part in Mexican economy. Because of their economic power and active support of the Axis cause, it is essential that they be controlled and their power broken. The Mexican government has in a few cases installed interventors in such firms but there is no indication that such action has resulted in any effective control of the activities of such firms. It is the belief of the American Embassy in Mexico that the Mexican government has only installed interventors in such firms for the purpose of making representations to have such firms deleted from the Proclaimed List. It should be remarked here that the Embassy in Mexico had little or no knowledge as to the efficacy of the Proclaimed List in general and the reporting by the Embassy of individuals and firms for addition or deletion from the Proclaimed List has been very inadequate.

It was the opinion of both the Embassy and the travelling mission that the local freezing decree promulgated by the Mexican government has had practically no effect. To start with, the decree is far too narrow in scope propoing to control only banking transactions (in fact only approximately 1,000,000 pesos - \$200,000 - has been frozen). Of more importance, the Mexican government has no administrative machinery at its disposal at the present time to effectively administer the inadequate decree that has been issued.

* * *

As an overall observation it should be emphasized that our diplomatic and consular missions do not have personnel with sufficient experience and background in the field of economic warfare so as to be able to render real assistance and advice to the local governments of the Latin American republics in connection with the adoption and carrying out of real local controls.

What is needed immediately is to have men on the spot in these countries who will be able to obtain the information needed, to see what is going on, to render such technical and other assistance to these countries as may be needed, and, what is more important, to spur these countries on and affirmatively furnish them with real ideas as to what to do.

S.H. 7L

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 4, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck

Subject: Shipment of Planes to British Forces, Week Ended
April 28, 1942

1. In the week ending April 28, 1942, a total of 110 planes of all types (84 combat planes) were shipped to British forces.
2. Except for the movement of 21 pursuit planes to the British forces in the Pacific, all of the combat planes leaving the United States in this week went to the United Kingdom.
3. Shipments of planes to the British in 1942 have now crossed the 2,000 mark. The United Kingdom received over half of the combat planes (55 percent), or a total of 916; the Middle East received a fifth (22 percent) and the Pacific received a sixth (16 percent). The other combat planes (7 percent of the total) went to Canada and India. Practically all of the trainers (313 out of a total of 321) were sent to Canada.

Table A - Shipments by Area

	Week Ending <u>Apr. 28, 1942</u>	Total shipped in 1942 to date	Total shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	35	225	1,386
Heavy bombers	10	45	149
Naval patrol bombers	0	8	110
Pursuit	18	579	890
Army cooperation	0	59	90
Trainers	<u>0</u>	<u>0</u>	<u>24</u>
Total to the United Kingdom	63	916	2,649
<u>To the Middle East</u>			
Light and medium bombers	0	192	522
Heavy bombers	0	0	5
Pursuit	0	166	1,014
Army cooperation	0	12	12
Trainers	<u>0</u>	<u>8</u>	<u>150</u>
Total to the Middle East	0	378	1,703
<u>To the Canadian Forces</u>			
Light and medium bombers	0	32	200
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	<u>26</u>	<u>313</u>	<u>1,554</u>
Total to the Canadian Forces	26	399	1,858
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	121	216
Naval patrol bombers	0	0	27
Pursuit	21	148	316
Trainers	<u>0</u>	<u>0</u>	<u>105</u>
Total to Pacific Forces	21	269	664
<u>To the British Indian Forces</u>			
Pursuit	<u>0</u>	<u>40</u>	<u>40</u>
Total to Indian Forces	0	40	40
<u>Totals</u>			
Light and medium bombers	35	570	2,324
Heavy bombers	10	46	155
Naval patrol bombers	0	31	168
Pursuit	39	963	2,332
Army cooperation	0	71	102
Trainers	<u>26</u>	<u>321</u>	<u>1,833</u>
Grand Total	110	2,002	6,914

Table B - Shipments by Types

	Week Ending <u>Apr. 28, 1942</u>	Total shipped in 1942 to date	Total shipped since <u>Jan. 1, 1941</u>
Bell Airacobra	4	311	465
Boeing B-17	2	11	31
Boston III	0	5	29
Brewster Buffalo	0	0	168
Cessna Crane I-A (AT-17)	5	36	36
T-50	0	86	700
Consolidated Catalina	0	31	168
Liberator	8	35	124
Curtiss Kittyhawk	21	348	730
Tomahawk	0	0	544
Douglas Boston I and II	0	0	82
Boston III	0	0	410
Fairchild 24 R-9	0	61	83
Glenn Martin Baltimore	0	195	263
Maryland	0	0	150
Grumman Martlet II	0	45	86
Lockheed Hudson	14	267	1,237
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	19	85	85
North American B-25B	2	6	6
Harvard II	0	51	948
Mustang	14	256	336
Pitcairn Autogiro	0	0	5
Stearman PT-27	21	148	149
Vought-Sikorsky Chesapeake	0	0	50
Vultee Stinson O-49	<u>0</u>	<u>10</u>	<u>14</u>
Grand Total - All Types	110	2,002	6,914

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Table C - Plane Shipments to the British by Weeks

Week Ended	Light and medium bombers	Heavy bombers	Naval patrol bombers	Pursuit	Army Cooperation	Trainers	Totals
Weekly average of shipments in 1941	36	2	3	28	1	30	100
January 6, 1942	24	0	5	30	4	9	72
January 13, 1942	3	0	2	58	0	42	105
January 20, 1942	8	0	0	14	0	60	82
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	33	0	3	59	0	4	99
February 17, 1942	12	0	2	41	7	0	62
February 24, 1942	33	0	2	86	7	1	129
March 3, 1942	26	0	1	80	6	0	113
March 10, 1942	29	2	0	78	1	0	110
March 17, 1942	34	1	0	94	8	0	137
March 24, 1942	94	9	12	79	0	84	278
March 31, 1942	49	1	0	58	4	10	122
April 7, 1942	69	2	0	8	4	5	88
April 14, 1942	55	7	0	86	6	29	183
April 21, 1942	55	11	0	43	15	34	158
April 28, 1942	<u>35</u>	<u>10</u>	<u>0</u>	<u>39</u>	<u>0</u>	<u>26</u>	<u>110</u>
Total shipments since Jan. 1, 1941 to date. *	2,324	155	168	2,332	102	1,833	6,914

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE May 4, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Japanese Pilot Supply

(This memorandum is based on conferences with Colonel Dusenberry, Japanese section of Military Intelligence, and Major Moore, Japanese section of Air Intelligence, and material secured from: the U.S. War Department's "Handbook on Japanese Military Forces"; U.S. General Staff study, "Survey of the Far East"; the British air magazines, "The Aeroplane" and "Flight"; Max Werner's "Military Strength of the Powers"; and articles by Lucien Zacharoff in "Aviation".)

Conclusion

It is generally agreed that the Japanese supply of pilots is large enough to man their limited output of airplanes. The bottleneck in the Japanese air force is in the small production of raw materials used in building planes.

1. The Japanese are believed to have had around 10,000 pilots on December 7, 1941. Training of pilots has recently been speeded up from 1,000 to over 3,000 a year. The losses of pilots in the war to date have been less than the number of new pilots trained. The Japanese Air Force, therefore, has more pilots now than at the beginning of the war.

2. In order to expand the program, the training period has been curtailed from almost two years to less than a year. As a result, the new pilots are not as good as the earlier-trained pilots. A similar deterioration in quality has resulted in the American Air Force for the same reason.

3. The Japanese differentiate between their earlier and later-trained pilots. The Japanese pilots are separated into two classes, Division I and Division II. The Division I pilots number 1,500 and are the Japanese crack pilots. Each of these men usually has had four years of combat experience in China and displays high combat ability. Division II pilots are used for the less vitally important missions and do not compare in ability with the Division I men.

- 2 -

4. The Japanese should not have any difficulties in manning their limited output of airplanes. According to a U.S. Census study, both Germany and Japan have 11,000,000 males in the age-group, 18 - 35, while the Germans have had to provide pilots for an air arm triple the size of the Japanese air force. There is no reason to believe that the proportion of Japanese who can make good pilots is much lower than that of any other race. From combat experience, our pilots agree that the Japanese have earned respect as good fighters.

5. The Japanese have shown good staff-work in their campaigns. It is not likely that they would produce more planes than they would produce pilots to fly them. This is especially true since the Japanese airplane production is so small in relation to population.

6. If the Japanese were confined to Japan, the necessary encroachment by airfields on the small amount of arable land available might result in a limitation on the size of the air force. However, with the free use of the broad level plains of Manchuria for training schools, it is not likely that limitations of space would constitute a bottleneck.

MAY 4 1942

Dear Dr. Soong:

Reference is made to your letter of April 23, 1942 enclosing telegram from Dr. H. H. Kung dated April 22, 1942.

I appreciate your forwarding Dr. Kung's telegram to me and pointing out the changes in the titles of the two new accounts.

Sincerely yours,

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

Dr. T. V. Soong,
Minister for Foreign Affairs,
Republic of China,
Chinese Embassy,
Washington, D. C.

By Message *Simmons* 5:00

*Phos. file N.M.C.
File to Dr. White*

Inf/ofs
4/28/42

Return to Secy's office

CONFIDENTIAL

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

April 23, 1942

Dear Mr. Morgenthau:

I have received the enclosed telegram from Dr. H. H. Kung for you in reply to your telegram of April 15th, and hasten to convey this to you.

May I bring to your attention the fact that Dr. Kung in his telegram refers to the two new accounts as: "The Chinese National Government Allied Victory U. S. Dollar Bonds Account" and "The Chinese National Government U. S. Dollar Savings Certificates Account", whereas in your telegram of April 15th these accounts were designated as: "The Chinese National Government Allied Victory U. S. Bonds Account" and "The Chinese National Government U. S. Savings Certificates Account."

Yours sincerely,



Enclosure

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury

CONFIDENTIAL

TELEGRAM FROM DR. H. H. KUNG FOR SECRETARY MORGENTHAU

DATED CHUNGKING, APRIL 22nd.

I thank you for your message of April 15th, which has been forwarded to me by Dr. T. V. Soong. I am grateful that, in accordance with our request and pursuant to our agreement of March 21st, you have transferred \$200,000,000 to the Federal Reserve Bank for credit to an account opened and maintained by the Federal Reserve Bank as fiscal agent of the United States, in the name of the Central Bank of China as fiscal agent of the Government of the Republic of China, and that, in accordance with our request, you have directed the Federal Reserve Bank to open two new accounts designated as follows:

"The Chinese National Government Allied Victory U. S. Dollar Bonds Account" and "The Chinese National Government U. S. Dollar Savings Certificates Account".

I have the honor to confirm that your understanding as stated by the following two paragraphs is correct:

(a) The Minister of Finance has designated the Central Bank of China as the agency of the Government of the Republic of China in whose name as fiscal agent of China an account or accounts will be opened in the Federal Reserve Bank of New York to which transfers will be made from the credit established on the books of the Treasury in the name of the Government of the Republic of China; and

(b) That the Minister of Finance has designated the Central Bank of China as the agency which is authorized to draw upon and to give all manner of instructions respecting such an account or accounts.

I have the honor further to confirm that all the accounts mentioned above are established pursuant to Article I of the agreement of March 21st, and that the Central Bank of China is authorized to draw upon and to give all manner of instructions respecting these accounts.

As requested in the concluding paragraph of your message, I beg to state that the request in my telegram of March 27th was made in view of possible cases where domestic banks might, upon the maturity of the bonds and certificates, effect repayment in fani in accordance with the wishes of the holder. In such cases, the equivalent amount in U. S. dollars should be paid upon request from the accounts with the Federal Reserve Bank to the Chinese Government's fiscal agent for the reimbursement of domestic banks effecting such payments.

C O P Y

May 4, 1942

To: Mr. Livesey, State Department
From: Mr. H. D. White, Treasury Department

Will you please send the following cable to Harold
Glasser in Quito, Ecuador:

YOUR RETURN BY PLANE MAY NINETEENTH IS SATISFACTORY.
FRIEDMAN'S TRANSFER TO PUBLIC SIXTY-THREE ON MAY FIFTEENTH
IS BEING REFERRED TO THE GENERAL COUNSEL'S OFFICE.

FAS:esh Init. by HDW

5/4/42

COPY:lap-5/4/42

TELEGRAM SENT

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

May 4, 1942

2 p.m.

AMEMBASSY,

QUITO (ECUADOR)

293

FOR GLASSER FROM WHITE.

QUOTE. Your return by plane May 19th is satis-
factory Friedman's transfer to Public 63 on May 15th
is being referred to the General Counsel's office.

HULL
(FL)

FD:FL:BMcB

C
O
P
YBy Safe HandT.F. 5.

BRITISH EMBASSY,

WASHINGTON, D.C.

May 4th, 1942.

Dear Dietrich,

I thought I would send you a special copy of our memorandum BIN 15640/42, seeing that the writer from Copenhagen on March 16th, 1942 desires to start up a gift service with Greenland. The letter was condemned by our censorship.

Yours sincerely,

(Sgd.) H. W. Auburn

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilisation Office, Room 279,
Washington, D.C.

HWA:YD

Copy:ims
5/6/42

May 2nd 1942.

BIN. 15640/42

It is understood from a delicate source that Gave - Telegram A/S, Tordenskjoldsgade 3, Copenhagen K, Denmark wrote in Danish on 16th March 1942 to Kolonib Estyrer N. Binser, Godhavn, Greenland.

Writers wish to draw addressees' attention to their Gift service; orders for gifts are now dealt with exclusively by post and can be sent by senders to writers, and it is writers' hope that it will be possible to do this with Greenland. Payments are to be made telegraphically.

A list of Standard Gifts which are always available is given as follows - Flowers, Chocolate, Perfume, Silver Spoons, China, Furs, Dresses, Linen, Cooking utensils, Hardware, Radio Apparatus, Jewellery, Umbrellas, etc.

Writers ask addressee to circulate this information and they will as before, see that every order is satisfactorily carried out.

Attached also are similar letters from writers.

- | | |
|-------|--|
| To 1. | Kolonibestyrer H. Dan Moller, |
| 2. | " (Egedesminde, Greenland.
(Aage Knudsen, Jacobshavn,
Greenland. |
| 3. | " S.A. Andersen,
Julianshaab, Greenland. |
| 4. | " T.H. Hedemann
Godthaab, Greenland. |
| 5. | Telegrafbestyrer Johs. Nielsen.
Ivigut, Greenland. |

Note:- It appears that writers are acting as agents for some other firm.

"H"

Copy:ime
5/6/42

LM

PLAIN

London

Dated May 4, 1942

Rec'd 5:14 p.m.

Secretary of State,
Washington.

2363, Fourth.

Department's 1468, April 8, 12 midnight and subsequent.

American bankers here indicate that they have encountered considerable delay in the replacement of individual checks drawn on the Treasurer of the United States and cashed locally as a commercial transaction which have been lost at sea due to enemy action. They inquire if it would be possible to clear such checks through the Embassy in somewhat the same manner as set forth in point two of the Treasury's suggested procedure for checks negotiated by disbursing officers acting in their official capacity except that the telegram to Treasury and payment to appropriate banks in the United States would not be applicable. If Department and Treasury so desire, Embassy could establish a procedure for accepting such checks and transmitting them under separate despatch.

WINANT

CSB

MJL

GRAY

Bombay

Dated May 4, 1942

Rec'd 8:52 a.m.

Secretary of State,
Washington.

309, May 4, 1 p.m.

Department's 68, to Calcutta.

Total amount of United States ~~to be~~ Treasury
checks cashed by National City Bank of New York
at Bombay and delivered to this Consulate is
\$1,111.70.

INFORM TREASURY.

DONOVAN

RR

May 4, 1942

Mr. Liversy

Mr. D. W. Bell

Will you please send the following cable to the American Consul,

Calcutta:

"From Treasury.

Reference your No. 301, April 24, 4 p.m.

In view of matters now under consideration the Treasury does not consider it advisable to extend check procedure. For your information National City Bank of New York, Bombay, has procedure for both checks and U. S. currency and Reserve Bank of India, Bombay, has procedure for U. S. currency."

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FD

May 4, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith paraphrases of telegram No. 137, dated May 3, 1942, from the American Legation, Tehran, Iran, concerning British purchases of Iranian rials.

Telegram No. 127 from Tehran under date of April 29 was transmitted to the Secretary of the Treasury in this Department's letter of April 30, 1942.

Enclosure:

From Legation, Tehran,
No. 137, May 3, 1942.

Copy:ime
5/4/42

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Tehran, Iran.

DATE: May 3, 1942, noon.

NO.: 137

The following is an urgent message.

The legation refers to its telegram No. 127, noon, under date of the 29th of April.

An informal and tentative agreement has been reached by the Iranian Government and the British Legation acting under instructions. This agreement provides that the Iranians will guarantee the supply of rials which will be issued against holdings of sterling. It also provides that the British will convert Iranian sterling into gold to meet Iranian imports payable in dollars. The British are also to convert into gold 35% of the remaining sterling holdings of Iran. The rate of exchange is to be fixed at 128 rials per pound and 32 rials per dollar.

The plan was approved last night by the Iranian Council of Ministers. The Council, however, has requested alteration of the rate of exchange to 124 to the pound sterling. The foregoing has been telegraphed to London by the British Legation which is now awaiting final instructions from London.

DREYFUS

Copy:ime
5/4/42

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 145

Information received up to 7 A.M., 4 May, 1942.

1. NAVAL

24th April - One of H.M. submarines hit a 4,000 ton merchant ship in the GULF OF GENOA and considers the ship sunk.

2. MILITARY

BURMA. CHINDWIN FRONT - MONYWA was reported clear of Japanese at 1400/2 but fighting with rebels continued in the town. Japanese were moving up the river in motor boats towing flats. Part of our forces moving back by mechanical transport towards KALEWA had reached KADUMA early on the 3rd but the state of the road made progress (group omitted).

MANDALAY Sector - Chinese main body reported in the area WETLET - MATHA with rearguards on main road and railway ten miles East North East of MANDALAY.

3. AIR OPERATIONS

WESTERN FRONT. 2nd/3rd. 238 sea mines were successfully laid. A cargo vessel off AALESUND is believed to have been set on fire. A small vessel off BREST is believed sunk and two others damaged. 25 R.C.A.F. and 9 N.Z. aircraft operated without loss.

3rd. 6 Boston and 8 Hurricane bombers successfully attacked DUNKIRK docks and ABBEVILLE aerodrome. About 420 fighters provided escorts and carried out offensive sweeps. 4 enemy aircraft were destroyed, 3 probably destroyed and 5 damaged. We lost two Spitfires and three Hurricane bombers, 1 pilot safe.

3rd/4th. 123 aircraft were sent out - HAMBURG 81, offensive patrols 22. Five are missing and one is down in the sea. About 30 enemy aircraft attacked EXETER. 6 bombers including two over FRANCE were shot down and two others probably destroyed.

MALTA. Between 1315/2 and 1130/3, 21 aircraft attacked. One Me 109 was destroyed and two others damaged.

MEDITERRANEAN. 2nd/3rd. A direct hit was made on a 5,000 ton merchant vessel entering PANTELLARIA harbour and near misses probably damaged a destroyer. It is thought that a 6,000 ton merchant vessel was hit by torpedo off LAMPIONE.

4. HOME SECURITY

3rd/4th. EXETER - About 60 high explosive bombs besides incendiaries were dropped. Serious fires were started at a number of places including the Southern Railway Central Station, the A.R.P. Control Centre, the GPO and Telephone Exchange and the City Hospital. The Southern Railway is temporarily blocked by a large crater and the Great Western Railway by debris.

Regraded Unclassified



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

May 4, 1942

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

Dear Henry:

Attached is the weekly Political
Warfare Executive French Directive.

Sincerely,

Bill
William J. Donovan

Attachment

1. Problems:

a. Laval is consolidating his position. The initial shock occasioned by his appointment has not caused a lasting reaction amongst the French.

b. Laval is continuing the purge of the prefects and other administrative officials as part of his plan to insure internal security before making a further move. May be soon extended to North African territories.

c. As Laval is anxious to preserve good relations with the United States, he may swallow his pride to guard against a break.

d. Laval is preparing a left wing appeal to peasants and workers by putting himself forward as a "socialist", ready to cooperate in the New Order. Doriot and Deat are backing this campaign.

2. Tasks:

a. Show the French people that the ultimate result of Laval's game will be the loss of their rights, freedom, security as slaves of the German Reich. Laval's traditional cleverness must be shown up as short-sighted opportunism. The myth of "le Malin Laval" should be broken.

b. Petain's equivocal position must be forced to a head. The French people must realize that traitors to France are using Petain as a cover. Build up a "mise en demeure" of Petain. The Petain myth should be broken.

c. The left wing appeal must be counteracted by positive propaganda. The "socialist New Order of Europe" should be debunked.

d. Listeners should be convinced that they cannot remain outside the war. Counteract peace dreams and war weariness.

e. Drive home the fact that France is still in the war. General Giraud should not be mentioned.

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



May 4, 1942.

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

Dear Henry:

The attached is from the British Political
Warfare Executive Weekly German Directive.

Sincerely,

Bill
William J. Donovan.

Manpower crisis:

- a. Show that the background of the conflict leading up to the Reichstag speech was war weariness and manpower shortage.
- b. Emphasize that Hitler, against the advice of the home front experts, has backed S.I.S. and Parteiapparat who have assured him that they can achieve a production increase by another turn of the screw. Show that Bormann and Himler's efforts will have opposite effect.
- c. Stress the contrast between the principles of "Gangsterstaat" and "Rechtsstaat". Stress that men who have no respect for law in international affairs show the same characteristics at home.
- d. Using the example of Norway and other occupied countries, show that it is possible for an unarmed civilian population to resist successfully.
- e. Appeal directly to the four million prisoners and foreign workers in Germany.

RAF offensive:

- a. React in a light-hearted manner to the German "Baedeker raids". There should be no moralizing about vandalism. Taunt them for ineffectiveness.
- b. Emphasize that the guilt for terror bombing is Hitler's.

Western nerve war. Keep going the theme of Laval and Rundstedt-Politik where there is no panzer. Avoid using mere isolated stories of resistance. They should either be used as illustrations of effective unarmed resistance or should be strategically linked to the western front.