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May 13, 1942  
8:55 a.m.

HMJr: Hello.

Operator: I have Mr. Donald Nelson on the wire.

HMJr: Thank you. Hello.

Donald  
Nelson: Hello.

HMJr: Is this Donald Nelson?

N: Yes, sir.

HMJr: This is Henry talking.

N: Oh, good morning, sir.

HMJr: How are you?

N: Fine, thank you.

HMJr: Two things happened. One, I got a memo from the President yesterday. Evidently he'd read carefully the memo I gave him about a certain gentleman.

N: Yes, sir.

HMJr: And he said in the thing, "Continue to keep Nelson informed."

N: Fine.

HMJr: Now, I wondered if this announcement I read about in the paper had anything to do with that.

N: No, sir. It did not.

HMJr: It did not.

N: It was a case there of just having to divide up the work because there was too much in one place.

HMJr: It had nothing to do with it.

N: No, sir.

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HMJr: Well, as far as I'm concerned, I have nothing more on it.

N: Well, I read that very carefully, and one of these days when I have the pleasure of having lunch with you again, I'd like to talk to you about it.

HMJr: All right. What are you doing tomorrow?

N: Let's see, tomorrow. Just a minute. Let me see my - no, I tell you. I have to be over at the Brooklyn Navy Yard tomorrow.

HMJr: Oh, I see.

N: I'm going over to the Brooklyn Navy Yard with Mr. Fulsom and Forrestal. If we can get together, suppose we get together next week.

HMJr: We'll get together next week.

N: Fine.

HMJr: But do you think I ought to call that gentleman up and tell him that I've turned over the thing to the President and you.

N: Yes, I do. I really do.

HMJr: And as far as I'm concerned, I'm through.

N: That's right. I would do that, sir. I think that you - would be the square thing to do.

HMJr: But that I've given a report to the President and you.....

N: That's right.

HMJr: .....and the matter rests with the President and you what, if anything, to do. But I'm finished.

N: I think that's the wise thing to do, sir.

HMJr: I'll do that.

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N: Okay.

HMJr: Thank you.

N: Good-bye, sir.

May 13, 1942  
9:45 a.m.

WAR STAMPS

Present: Mr. Graves  
Mr. Gamble  
Mr. Kuhn  
Mr. Odegard  
Mrs. Klotz

H.M.JR: I am making my plans to go Sunday night with Mrs. Morgenthau to that meeting, and then to stay there. I thought I could spend a forenoon--

MR. GRAVES: In New York?

H.M.JR: Yes. Which of you two gents will be there?

MR. GRAVES: Mr. Gamble is going to run that meeting.

H.M.JR: All right, what time do you start?

MR. GAMBLE: Nine o'clock.

H.M.JR: At the headquarters?

MR. GAMBLE: At the headquarters.

H.M.JR: Could I sit in the back with dark glasses on?

MR. GRAVES: That will be difficult. They will probably want you right up front.

H.M.JR: No, I will sit in the back.

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MR. GRAVES: That is what I would like, too, to have the meeting just as if you weren't there.

MR. GAMBLE: That can be very easily done. It was done in Chicago. I would recommend you come about ten o'clock. By that time we will be in the middle of the meeting.

H.M.JR: What am I going to do from eight to ten?

MR. GAMBLE: Then come at nine.

H.M.JR: I will do what I did one other morning. It is marvelous in the park at seven in the morning.

(Discussion off the record)

H.M.JR: If it won't embarrass you, Ted, I think I will just drop in and sit in the back and see how the meeting is going.

MR. GAMBLE: Fine.

H.M.JR: Are you going up, too?

MR. KUHN: Up to New York? I think so.

H.M.JR: Why don't you stay at the meeting and come back with me? I will just stay there in the forenoon and then come back. I think it would be good for you.

MR. KUHN: I can do it.

(Mr. Odegard entered the conference)

H.M.JR: Hello, Peter. Have you been watching us from your observatory? How are we getting along?

MR. ODEGARD: I have been reading examination papers, Mr. Secretary, grading examination papers.

H.M.JR: Let me put the question another way. Are

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you conscious of increased tempo when you sit up at Amherst, of what we are doing?

MR. ODEGARD: No.

H.M.JR: Through newspapers, stores, radio?

MR. ODEGARD: No, I am not conscious of it. I think one reason is that western Massachusetts has not been pushed.

H.M.JR: Supposing, just as though Peter and I didn't know a thing about it, either Graves or Ted take long enough to sketch what our plans are for promotion from now until the first of July.

MR. GRAVES: Ted, I will yield to you, if you care to.

H.M.JR: Would you like to hear it?

MR. ODEGARD: I would, very much.

MR. GAMBLE: I think you would both be very much interested, by way of prefacing these remarks, if you were to see the number of papers that have been coming in from all over the country.

Yesterday I received newspapers from the State of Kansas, from small towns. In Manhattan, Kansas, for instance, where the story of our stepped-up activity broke on the same day as the fall of Corregidor, the fall of Corregidor is a subhead to the main headline eight columns across the top of this paper, which I have on my desk, announcing the Treasury's new drive for ten percent.

We have several other papers from that same region showing the reaction of the country to this drive for ten percent of everyone's income in the sale of the bonds.

Peter, in your absence this Advertising Council material was completed and is going out within the

week to some thirty-five thousand firms. It is a complete kit - will be a complete plan, not only telling employers what they should do but showing them how to get together with employees. This would come through management and not force them into a labor-management arrangement. It is suggesting that labor and management get together and prosecute fully this whole matter of pay-roll savings. It tells them a half a dozen steps that they should take and that other firms have taken that have been successful, and it will supply them with certain aids in taking these steps.

This same material will be extended, Peter, to cover every firm in the country of fifty or more persons. We will have available that much material for our field organizations right away.

This is to be supplemented by ten-percent posters, ten-percent billboards. We are even going to have ten-percent buttons. The buttons do not say "At Least Ten Percent of Everybody's Pay Every Pay Day", but the "Ten Percent" is symbolic of our drive, to make people conscious of the drive, that anything less than ten percent likely is not to be acceptable.

I make that qualification because I don't think Peter is very crazy about buttons. It is for its promotional value that we are getting out the buttons more than the idea of recognizing only those persons that have--

MR. ODEGARD: A symbol of individual participation.

MR. GAMBLE: Yes, but it ties in with all of the other things we are going to do on this program of selling the ten-percent idea. In addition to that, there will be a series of advertisements to tie in all of the small communities of America; "Mansfield, Ohio, answers the call forty-four thousand strong, with sponsorship to be by local merchants, tied up with the Outdoor Advertising Association."

All of the billboard posting companies in the country are going to erect in all of these communities

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large poster pamphlets. I think you saw those before you left. Some replica of a plane or tank or gun or jeep will be put on this billboard and be filled in - stencil to be filled in as the town makes its quota.

That, in brief, is the promotional job that is being done. That, of course, is being advertised by the radio and all the mediums that have access to promoting this ten-percent idea.

We are conducting at the present time this tour. Mr. Sparks and Mr. Englesman visited seven or eight States, the large States. There are ten States where sixty-five percent of all E bonds are sold, and they are personally presenting this stepped-up activity.

H.M.JR: That is a new figure.

MR. GRAVES: Two-thirds of our total sales are occurring in the ten largest States. It is those States we are hitting.

MR. GAMBLE: We are getting this to them now. They are getting it in advance, and by the time this tour has been completed the first State will start getting its material. This material is designed to supplement the General Electric mailing and the General Motors mailing, and we feel it comes at a very appropriate time, selling this to employers and employees alike. We don't feel that any time has been lost because we feel people have absorbed just about as much as they could and about as fast as they could. It is well timed, the delivery of this material to them.

We also are training - as a concrete example, it was decided in Cook County, Illinois, to increase their pay-roll savings committee from seven hundred and fifty people to fifteen hundred people, in order to get this job done by June 15; and a very concerted effort is going to be made in every community of doubling the pay-roll savings forces.

MR. GRAVES: By the way, have you heard anything from Detroit?

MR. GAMBLE: I haven't heard anything - to get done by June the 15th and to complete all of the installation in all the firms of a hundred or more, involving twenty-two million people and a drive in that period for a ten percent participation by everybody in the plants. This has been done in a sales way. It is to be presented to all of these people as a top selling job, not one of pressure, but one of promotion. I think we have taken about every step we can take under the head of salesmanship to do this job, and hitting about as hard as we can hit without grabbing them by the coat lapel and telling them they had to sign. I think we have drawn a good line and you will be well pleased.

MR. ODEGARD: Did the CIO plan come through?

MR. GAMBLE: It has not. They have suggested that a labor-management committee be set up to run this whole program, five from labor, five from Government, five from management, to run the War Savings Bond activity so far as the CIO people are concerned. But Houghteling told me last night that he was convinced after some further conversation that this was a plan by Carey and not Murray's idea and that he was going to have that straightened out, he thought, right away.

MR. ODEGARD: Savings incidental?

MR. GRAVES: No, it was a plan for the purchasing of the War Savings Bonds only under those auspices.

MR. KUHN: Wasn't the chairman of that committee to be the chairman of the whole War Savings program?

MR. GRAVES: What they said was that the executive secretary of that committee would be the executive director of the War Savings. It was a very grandiose and an ambitious scheme.

MR. KUHN: Accent on the "ambitious."

MR. ODEGARD: What about these hundred and seventy-five organizers?

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MR. GAMBLE: That is the AF of L, one hundred and fifty organizers of the American Federation of Labor that have been assigned by Mr. Green to cooperate in this program. They are going to do that through four sections of the country. For example, Mr. Hyatt in the northeastern part of the country will have a portion of those organizers assigned to him; they will contact locals and contact local labor people and even go down into the plants and talk to the stewards about increased participation on the part of the employee, all independent of management and all independent of our people, so far as the program is concerned. It is just some promotion of their own design to do this job a little quicker than has been done.

That is one phase of it, Peter, and the second phase of the work has to do with the solicitation of those persons not available through savings. That stands about where it did when you left. You are familiar with that. You sat in on it. It is not worked out, with the exception that California has since approved its plan and is going ahead on the twenty-fourth. California will be the first.

H.M.JR: That is the certificate, the cash and carry?

MR. GAMBLE: That is correct. California will be the first State to give us a report on that. They will do this job on the twenty-fourth day of May. That is just twelve days away. Their first canvass will be done in Los Angeles County, involving about two million people.

MR. ODEGARD: They will get ahead of New York?

MR. GAMBLE: They will be ahead of New York.

I would like to repeat myself a little, Mr. Secretary. I have a feeling from hearing you yesterday, and from hearing Mr. Odegard just now, that you don't feel that the stepped-up activity is being felt in the

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country. I think just the opposite is true. I don't think at any time in the year that we have been in this program have things been at as high a point of enthusiasm, and public reaction and public consciousness of what we are trying to do was never higher than right now.

H.M.JR: That is what I asked. The President gets his reaction in Hyde Park; I get mine in East Fishkill. I can't find out who they appointed in Fishkill. I can't find they appointed anybody in East Fishkill, although he said they had six hundred canvasses going. Thank heavens they had canvassed Franklin D. Roosevelt's Library; that had been done before he got up there.

MR. KUHN: I think you can tell from the number of rallies and other celebrations that are being held throughout the country, and we get the repercussion of that in requests for statements. More than ever before you can see it in the newspapers, in the department store advertising, and the publicity.

H.M.JR: I don't think there is as much in the department store advertising as there was a month ago, two months ago.

MR. GAMBLE: Much more, Mr. Secretary.

H.M.JR: Go back a month - you had three full-page ads in Washington in a week.

MR. GRAVES: Did you see the "Washington News" yesterday? It was just full.

MR. KUHN: "Washington News" had a special section.

MR. ODEGARD: I think the thing that impressed me, perhaps unduly, was this retailers' meeting in Chicago. I thought that was very hopeful.

H.M.JR: Were you out there?

MR. ODEGARD: Yes.

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H.M.JR: I didn't know it. I mean, I just feel this way, gentlemen; I am nervous as a wet cat about this thing. As I said yesterday, there is nobody in any Government agency that is going to give us a hand. Everybody is trying to find a way to trip us.

I was sitting here with Carey alone here yesterday, and he put it very well. He said, "You know, Mr. Morgenthau, we have had several meetings with the Henderson group. I had one this afternoon, and they are scared, actually scared, of handling it. We think they should handle it, but they think it is much easier to ration money than commodities," so therefore they are for rationing money and they want us to do it.

I never heard it put quite so simple. He says they are scared of it and that they want us to do it. He said, "They are trying every way possible to get you to do it" and, he said, "That is the situation over there."

MR. ODEGARD: Didn't you say, Ted, that Henderson had denied making--

MR. KUHN: That was the strangest business.

H.M.JR: Yes, I want to see those clippings.

MR. KUHN: The "New York Times" carried his denial in full, including compulsory savings, but they had a piece in the next column by Arthur Krock playing with Henderson as a dodger, that is, showing how he has changed.

The "Herald Tribune" ran only a piece of what he said. They did not run his denial about compulsory savings, and they had an editorial based upon the erroneous story of the day before.

The "Washington Post" didn't carry a line of his denial and had an editorial based on the erroneous statement of the day before.

(Clippings handed to the Secretary.)

H.M.JR: Here is a thing called "Leon the Leaper" in the "New York Tribune."

MR. GRAVES: Mark Sullivan had a story.

MR. KUHN: That was not inspired by Henderson thing.

MR. GRAVES: No but just as damaging.

H.M.JR: Don't think I don't realize everybody is working like hell, but I am just going to - it is not here (indicating clippings).

MR. KUHN: "New York Times" had it in full this morning.

H.M.JR: Must have had a different edition than I have got.

Will you (Lt. Stephens) ask Mr. Schwarz to get together any clippings on Mr. Henderson's statement of last night.

(Mrs. Klotz entered the conference.)

MR. GAMBLE: I don't think in Manhattan, Kansas, for example, that the people are vitally concerned about and I don't think they hear as much about what goes on here in Washington as we do right here and as they do in New York. I think by and large that our program has so completely overshadowed anything that has been detrimental to it that our work has not been impeded in the slightest, and I believe that we should perhaps get together for you right away a sampling of press material from over the country so you can see what the reaction is.

H.M.JR: Well, you see, we are talking here quietly. Well, now that we have this room, if I don't go in - it is my own room, you have a whole room at your disposal, and I don't think you give me enough. I keep having to

live off my own juice and have to keep charging my own batteries; but I don't get enough juice. As an example, I have had only two letters back from anybody, McKellar and somebody else, in regard to our bonds. Well, he says there are a lot of letters - give me some good stuff.

MR. GAMBLE: There are two things I picked up yesterday because of the remark you made.

H.M.JR: I mean, in other words, don't overlook - I mean, I am sold and I am giving everything I have got to this thing; but I need ammunition. I may run out of ideas.

MR. KUHN: You got a swell letter from William Allen White. I think he is in a pretty good position to know what the Middle West is thinking about this thing. It might be a good idea for you to ask him in to lunch some time to talk about it. He is completely with us on voluntary savings on all aspects of this thing, and he is a pretty good observer of his own part of the country.

MR. GAMBLE: May I augment that by saying if that is a good idea why wouldn't it be a good idea to have a half dozen newspaper people, picked at random around the United States, come in here and have lunch with you, and let them tell you how our program is--

H.M.JR: They would misunderstand it, think I was trying to sell them--

MR. KUHN: White wouldn't.

H.M.JR: If they are sold, I would leave them alone. They don't have to be sold on my program. But if you have any good news it doesn't do any harm to give it to them. If I sent for them, they might think I am going to ask for a favor. I know these newspaper men; you send for them and they think, "What does Morgenthau want?" I invited Henderson and he called Eccles trying to find out what I am going to sell him.

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MR. GAMBLE: Our program will stand that kind of a test. That was my point.

H.M.JR: I think you have got the newspapers. Give me some stuff I can use for the President, the Vice President. There isn't a Cabinet meeting that it doesn't happen I need more ammunition.

I don't think I would invite newspaper men in.

Harold, who over there is in charge of mail, the stuff going out?

MR. GRAVES: That is done in the Public Debt Service, the old division of Savings Bonds.

H.M.JR: Is it well done?

MR. GRAVES: Well, we have had a lot of trouble, but I think it has been remedied. Our difficulty was in duplications, people appearing on more than one list getting two sets of material, or three or five sets of material.

H.M.JR: Is that Broughton?

MR. GRAVES: Yes, that is Mr. Broughton's department.

H.M.JR: Who is immediately in charge?

MR. GRAVES: Wilson.

H.M.JR: This is just a shot in the dark--

MR. GRAVES: They are moving that, by the way, to Chicago.

H.M.JR: Just a shot in the dark, but ask them as of this morning how many unfilled orders they have on hand and how old are the orders they have on hand.

MR. GRAVES: You mean for poster material?

H.M.JR: Anything. Send somebody down and--

MR. GAMBLE: You asked me to--

H.M.JR: How much have they got on hand, how old is it that is unfilled, as of this morning.

MR. GAMBLE: It takes forty-eight hours to take material out of here, poster material and things that the War Savings staff has.

H.M.JR: That is a day too long.

MR. GRAVES: As I say, they are moving that activity to Chicago.

H.M.JR: It will be the same people?

MR. GRAVES: Same people.

H.M.JR: Might have to put some younger fellow on.

MR. GRAVES: I think, as a matter of fact, they have done very well, with that single difficulty of duplication.

H.M.JR: Just check it.

MR. GRAVES: I will.

H.M.JR: Peter, you will be interested; we are going ahead with four meetings for the Negroes.

MR. GAMBLE: Be five altogether, sir.

H.M.JR: Five, with Robeson, Marian Anderson, as the drawing cards.

MR. ODEGARD: I hope these are from the ground up rather than from the top down.

H.M.JR: Take a look at it while you are here. I don't know. I hope so.

MR. GRAVES: While he is here - he is here for good now.

MR. ODEGARD: Not until after commencement.

H.M.JR: When are you going up for commencement?

MR. ODEGARD: Probably Saturday.

H.M.JR: Want to go up with me Saturday morning?

MR. ODEGARD: Like very much to.

H.M.JR: Want to come back with me? We are leaving right after commencement, and we are going to hear Robeson sing and go in the morning and hear him (Gamble) lecture Monday morning.

MR. ODEGARD: Gamble lecture? I would like that very much.

H.M.JR: To hear Robeson sing?

MR. ODEGARD: To hear Gamble lecture.

H.M.JR: That is the program.

MR. ODEGARD: Lieutenant Stephens wired the other day to find out, and I said four-thirty provided you could shake loose of the well-wishers.

H.M.JR: We will get away from there by five.

MR. ODEGARD: I think the students were a little puzzled by my reference "better allow time to get rid of the well-wishers."

H.M.JR: We don't make any allowances, but think

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it over, if you would like to go up Saturday morning, then to New York and hear him (Gamble) lecture Monday morning. I will leave there around noon to come back. Would you like to do that?

MR. ODEGARD: Very much.

H.M.JR: Have you been to one of these meetings?

MR. GAMBLE: There have only been two, one in Chicago Monday, one in Detroit yesterday.

H.M.JR: What are all these rumblings that you tell me about the Women's Division?

MR. KUHN: No rumblings. We told you some time ago that we were looking over the whole of that set-up over there to try to lick it into shape. We are working on that right now.

H.M.JR: You said you couldn't touch the women until Peter got back.

MR. KUHN: I mean the whole thing, we were all going to talk about it. Peter has been looking into it already.

H.M.JR: Why can't you touch any of the women until Peter gets back? (Laughter)

MR. KUHN: He has got an inside track.

H.M.JR: All I asked was before you make any move I would like to see what you are going to do.

MR. KUHN: We don't know yet the move that is needed.

H.M.JR: This is not for Kuhn to hear, but all the rest of you, any of you that have influence with Kuhn - I have not - but I want you to get, without his knowledge - to engage a very able man writer and a very able woman

- 16 -

writer who can write speeches so that Kuhn isn't doing that except for me or for some special occasion. I have begged him now for months--

MR. GRAVES: He wants to write them himself?

H.M.JR: He wants to write them himself.

MR. KUHN: I would be delighted to get somebody.

H.M.JR: A very able man and a very able woman. I think there are enough people. If you haven't got the money, let some of these people go, some of these pamphleteers, and get it so that he is left to help me, for all these important committee meetings to which he goes, and not be bogged down with writing speeches for Mr. Eugene Meyer, things like that.

MR. KUHN: Oh, that.

H.M.JR: But, anyway, would you talk to him some time when you see him?

MR. KUHN: I have still got two things to discuss with you: First, this Cincinnati business, and secondly, these war heroes. On that I really think that it is going to require a talk on your part with Lovett or somebody in the War Department, and somebody of equal rank in the Navy, to make sure that we get our people for that.

H.M.JR: Why don't I do it this way: Let me talk to either the Secretary of War, and Navy, or the Acting Secretary, and ask them who is in charge of public relations, tell them what I want, and would they please tell these people that this is something that I want very much and that you will be in touch with them. I want them notified from the top down.

MR. KUHN: I just think it needs some pressure from the top. I think the trouble with the public relations people over there is that they are not

- 17 -

authorized to do the kind of thing that we want.

H.M.JR: Suppose I tell them you would like to see Mr. Lovett. It would be much better, you know, to go to Lovett than to General Arnold and Admiral - who is the head of the air corps in the Navy?

LT. STEPHENS: Admiral Towers.

MR. KUHN: They are very strict about these things; they will only send one man for one occasion. They won't put any of these people on tour.

I know Knox's assistant, Adlai Stevenson.

H.M.JR: I will let him name the man, somebody that has got authority to act. I will get him for you right now.

MR. ODEGARD: You mean that is for the American heroes, too?

MR. KUHN: I am thinking of the Americans. The British are actually sending theirs over any time we want them; but I want to get a dozen or so Americans, like people from the Marblehead crew who are back here now.

MR. ODEGARD: They insist on that on an individual basis?

MR. KUHN: Individual basis.

MR. ODEGARD: It doesn't do if you plan the meetings in advance so that they know specifically in advance what is involved?

MR. KUHN: Well, we sometimes plan meetings around the people that we can get.

MR. ODEGARD: I was just thinking I can understand their reluctance not to go in blind.

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MR. KUHN: All I would like to have is a list of the people who would be available to us if we wanted them.

H.M.JR: Have you got your Greek friend?

MR. GAMBLE: He has been cleared by the income-tax people.

H.M.JR: You will have to move fast on this thing.

MR. KUHN: Also talk about the financing of these trips. It is going to be a problem there who is going to foot the bill.

(The Secretary held a telephone conversation with Secretary Knox, as follows:)

May 13, 1942  
10:21 a.m.

HMJr: Hello.

Operator: Secretary Knox.

HMJr: Hello. Frank?

Secretary Knox: Yes, Henry.

HMJr: How are you?

K: I'm fine.

HMJr: Good. I'm calling up for some help.

K: Yeah.

HMJr: Frank, I got the idea several weeks ago that if we could get - bring over to this country some of the English heroes, some of the people that bombed Germany, and put them on tour in this country for a War Bond drive, it would help us, you see.

K: Some of the flyers, the British flyers?

HMJr: Yeah.

K: Uh huh.

HMJr: Now they've agreed to it.

K: The British have?

HMJr: Yeah.

K: Uh huh.

HMJr: And they've agreed to send over some Commandos.

K: Uh huh.

HMJr: Now, what we want is, we'd like when this - in the first place we need some help. We want to send American Naval heroes and Army heroes with

- 2 -

them, so it isn't just English, you see?

K: (Laughs) Henry, look out, or you'll get me into hot water.

HMJr: Why?

K: Because I'm being bombarded from every quarter to send Buckley and send O'Hare and send.....

HMJr: I know.

K: And it just disrupts the whole damn.....

HMJr: That's all right. I've got to raise the money, though.

K: I know, but you can't have active combat officers to raise money. You've got to use fellows that can't do the combatting.

HMJr: Well, that isn't going to impress the people.

K: I don't think you need any American people with them if you've got these Britishers. That'll be enough.

HMJr: Oh, sure, now.

K: Huh?

HMJr: And listen - and furthermore, I want you to help me finance it. You can do a little Navy recruiting along with us.

K: No, that's out, Henry. I got your letter. We'll - I'll make you this proposition, and it's all I can do.

HMJr: Yeah.

K: And that is that I'll supply the men whenever I can or the bands, but I can't pay for the transportation, because I haven't got anything to pay for it with. There's no provision for anything of that sort. When they come down from Chicago - to Chicago from Great Lakes, the people in Chicago have to raise

- 3 -

the money to get them down there. I literally have no money for that purpose at all, and I'll contribute the men and the organization; but somehow or other you've got to find ways to transport them.

HMJr: Uh huh.

K: I went over it in full with General - with Admiral King and Horn and Jacobs this morning when I got your letter.

HMJr: Uh huh.

K: And we all agreed that we'd make you that definite proposition that whenever we could, we'd supply the organization to participate in these affairs, but we cannot and have no means of paying for transportation for that purpose.

HMJr: God, you sound tough this morning.

K: (Laughs)

HMJr: Regular quarter deck stuff.

K: (Laughs) Well, I've got a tough gang here to run.

HMJr: Yeah.

K: It makes a man tough.

HMJr: Well, you know - this giving stuff is both ways, you know.

K: What?

HMJr: Giving is both ways. You may want something tomorrow.

K: Now don't you go threatening me now, young feller.

HMJr: No, I'm just holding out a carrot.

K: Holding out a carrot or a mailed fist, which.

HMJr: No, a carrot and a rose.

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K: (Laughs)

HMJr: Here you send - I get these mysterious letters from the President to look up all this stuff about the Chicago Tribune, where they get the paper from and everything.

K: (Laughs) Well, I'll help you on that.

HMJr: Yeah, yeah.

K: (Laughs)

HMJr: And I turn myself inside out to get something on the Tribune.

K: Well, you go ahead and do it. That'll be a public service.

HMJr: Yeah.

K: It won't be for the Navy alone.

HMJr: Yeah. Well, loosen up a little bit.

K: I'm loosened up to the extent of all the men you need that I can possibly supply.

HMJr: Yeah. Now - now - well, now let me ask....

K: You've got to have some expenses selling your bonds, Henry.

HMJr: Yeah.

K: You just can't duck it.

HMJr: No.

K: And I think it's a proper Treasury expense. If I supply the characters in the play, you ought to supply the train to take them there.

HMJr: Well, some months ago, somebody - I don't know who it was - I think it was you or Forrestal said, "We ought to hook up on this Navy recruiting thing."

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K: Well, I didn't say it; and if Forrestal did, he wasn't familiar with the way it's being handled.

HMJr: I see.

K: It can't be done.

HMJr: Well, now, look. Who can we contact so as not to have to bother you again, seeing that you've given me everything that I want.

K: Well, let's see.

HMJr: Who can talk for you?

K: Jacobs - that's in the personnel, and properly falls in the Bureau of Navigation, and.....

HMJr: What about this fellow Adlai Stevenson?

K: All right. He's very good.

HMJr: Would he be all right?

K: He would be quite all right, yeah.

HMJr: What?

K: Yeah.

HMJr: Would you speak.....

K: And he can go directly to Jacobs, and needn't bother me about it.

HMJr: Well, Kuhn.....

K: All I'll do is settle the policy, and then let them work it out.

HMJr: Well, Kuhn, K-u-h-n, will represent me.

K: K-u-h-n.

HMJr: Ferdinand Kuhn.

K: What?

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HMJr: Kuhn, K-u-h-n.

K: All right.

HMJr: Adlai Stevenson knows him well.

K: All right, fine.

HMJr: And.....

K: Now, while I have you on the phone.....

HMJr: Yeah. Now what do you - yeah.

K: .....aren't you going to buy me a meal one of these days.

HMJr: Yes, sir.

K: (Laughs)

HMJr: How about tomorrow?

K: Is tomorrow Thursday?

HMJr: Yes, sir.

K: I think so.

HMJr: About one o'clock?

K: Yeah, uh huh.

HMJr: And to show you how much I love you, I don't want anybody else.

K: Yeah. Don't you want me to bring Ernie King along?

HMJr: Well, if you can it would be very nice.....

K: (Laughs)

HMJr: .....but you alone would be sufficient, but if - hello.

K: Yeah.

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HMJr: If you got King, it would be a very nice addition.

K: I'll see if Ernie is free. If he is, I'll bring him along.

HMJr: Tomorrow.

K: Uh huh.

HMJr: That'll be wonderful.

K: What?

HMJr: That'll be wonderful.

K: All right, Henry.

HMJr: I thank you.

K: Good-bye.

HMJr: I expect you anyway.

K: What's that?

HMJr: I expect you in any event.

K: All right, I'll be there. Yeah.

HMJr: Okay. Thank you.

H.M.JR: That's all I do all day long.

You (Kuhn) find out through Mr. Graves and the finance people before these people get here that you have got the money in the bag. We don't want another Donald Duck.

MR. KUHN: That is what I want to ask about.

H.M.JR: Anybody over at the War you would rather work with? McCloy?

MR. KUHN: McCloy would be fine, wonderful.

MR. GAMBLE: Our big problem is not so much transportation as it is gasoline and places to take care of these planes, as they travel around the country.

H.M.JR: No trouble about that.

(Discussion off the record)

MR. KUHN: There is the matter of transportation from England, for example. The English probably won't pay that.

H.M.JR: My God, here I am working - gave them a check ten days ago for seventy million dollars, which they couldn't get. I got another one for a hundred and ten million dollars. Get Sir Frederick Phillips in on this thing. You had better have the thing all signed, sealed and delivered.

MR. GRAVES: We must; we cannot make a move until we know where we stand on financing.

H.M.JR: That is your responsibility.

MR. GRAVES: I have already told these people that the first thing is to make sure that we can pay.

H.M.JR: No Donald Duck stuff.

MR. GRAVES: That's right.

H.M.JR: Are you (Odegard) going to give us full time now?

MR. GRAVES: Yes, he is; he doesn't know it.

(The Secretary held a telephone conversation with Under Secretary of War Patterson, as follows:)

May 13, 1942  
10:31 a.m.

HMJr: Hello.

Operator: Secretary Stimson is in conference. I have Mr. Patterson.

HMJr: Okay.

Operator: Go ahead.

HMJr: Bob.

Robert P. Patterson: Henry.

HMJr: Are you Acting Secretary of War today?

P: I believe not.

HMJr: Oh, I don't know. I asked for the Secretary or Acting Secretary, but.....

P: He came back - the Secretary came back yesterday.

HMJr: Well, anyway, they gave me you, so as far as I'm concerned, you're the Acting Secretary of War.

P: All right.

HMJr: Is that okay?

P: You bet.

HMJr: Bob, several weeks ago I asked the English whether they would send over some national hero who had bombed Germany, you see.....

P: Yeah.

HMJr: .....that we could use, and put on a tour on the country to help us sell War Bonds.

P: Yeah.

HMJr: Now, they're going to do it.

P: Yeah.

- 2 -

HMJr: And they're sending over the man that actually went over and bombed Lubeck, or one of those places, you see.

P: What's his name?

HMJr: Just a minute.

P: Paddy Finucane?

HMJr: Nettleton.

P: Yeah.

HMJr: Nettleton.

P: Yeah.

HMJr: Not Paddy Finucane. I asked for Paddy, but I didn't get Paddy.

P: (Laughs) All right.

HMJr: That's who I asked for. And they may send us some Commandos.

P: Uh huh.

HMJr: I'm asking both War and Navy whether they will help us, because I'd like - I think it would be nice if we sent some outstanding Army hero along with it, you see?

P: Yes.

HMJr: So that it wouldn't be just English.

P: Yes. How long is it going to take?

HMJr: They say they'll be - I don't know.

P: A couple of weeks?

HMJr: A couple weeks. And we'll need help from the Air Corps to help us when these men land at different air fields, you know, to look after them.

- 3 -

P: Yes.

HMJr: You may want to designate somebody to go with them, you see.

P: Yes.

HMJr: Now - so ~~that~~ - I mean, that they're taken care of from place to place where they go.

P: Yes, I understand.

HMJr: Now, who could handle that for you, so that we could go to somebody and work out the details.

P: Well, I think probably - oh, anybody - Greenbaum or Bob Ginsberg, or Bob Lovett. Whoever you'd like.

HMJr: Well, it's - well, I don't know. It's Air Corps business.

P: It's Air Corps business, all right, and they'd have to get the man. Suppose it's Bob Lovett?

HMJr: Well, he'd be fine if you'd tell him to do it. That's the point.

P: Yes, I will.

HMJr: I mean.....

P: I'll tell him to. Who's handling it for you?

HMJr: Ferdie Kuhn.

P: Kuhn?

HMJr: Yes.

P: Yes. I'll see that Bob Lovett gets in touch with him.

HMJr: But the point is, from the time they land here until the time they leave the country, I think an Air Corps man should be with them, don't you?

- 4 -

P: Very likely, yes.

HMJr: What?

P: Very likely. Have Kuhn call up Lovett, will you?

HMJr: Yes.

P: That's the best thing to do.

HMJr: And we can count on cooperation.

P: You surely can, Henry.

HMJr: And you can give us some Army hero, maybe, to go along with them?

P: If we can find one, yes. They're - they've been a long way off, you know, and I don't think there are many around.

HMJr: Well.....

P: They stay in Australia. But certainly so far as - the other part of it is easy enough, that is, the escorting of them around by an Air Corps officer here. That can surely be done, Henry.

HMJr: And giving them the - each of these airports that I've been to always have an Army hangar and quarters and all that sort of thing.

P: Sure, they can put them up.

HMJr: They can put them up, and feed them, and.....

P: Yes, indeed.

HMJr: .....gas them, and that sort of thing.

P: That is right.

HMJr: What?

P: Will you have Kuhn call up Lovett?

HMJr: Right.

P: That's right.

HMJr: And, of course, we wouldn't object if you want to do some Air Corps recruiting along with it.

P: (Laughs) Yeah.

HMJr: What?

P: Yes, there may be something doing there.

HMJr: You see?

P: Yeah.

HMJr: You might want to hook up with Air Corps recruiting, and we might even nick you for a little of the expenses.

P: Yeah. I'll ask Lovett to take it up; but if you have Kuhn call Lovett, that's the best thing.

HMJr: I'll do that.

P: Fine.

HMJr: Thank you.

P: Good-bye.

MR. KUHN: That is wonderful.

H.M.JR: I didn't think Greenbaum would be so good as Lovett.

MR. KUHN: Lovett is the man we have been dealing with on all these things.

H.M.JR: O.K., this was a good little talk and I enjoyed it.

THE SECRETARY OF THE NAVY  
WASHINGTON

May 13, 1942

*lunch*

My dear Henry:

I have talked with you over the 'phone about your letter of May 11 concerning the Navy Department providing officers and men for parades or color guards to attend rallies designed to sell bonds.

I have discussed this, as I told you on the telephone with Admiral King, Admiral Jacobs and Admiral Horne and our combined judgment is that we are ready to provide, whenever we can possibly do so, the ~~means~~ <sup>means</sup> of musical organizations you desire on the condition that whatever expense for transportation or subsistence may be incurred may be provided by the bond-selling organization of the Treasury Department.

In accordance with your suggestion, I am asking Adlai Stevenson to represent the Navy Department in any future arrangements of this character. My understanding is that you will be represented by Mr. Kuhn.

Sincerely yours,

*Frank*

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

May 13, 1942  
10:53 a.m.

HMJr: Hello.  
Operator: Miss Tully is with the President.  
HMJr: Well, leave word, will you please?  
Operator: Yes.  
HMJr: And did Mr. Batt call back?  
Operator: No. I called over there and cancelled the call.  
HMJr: Well, if he's available, I want to talk to him.  
Operator: All right.

May 13, 1942  
10:55 a.m.

HMJr: Hello.  
Operator: Mr. Batt.  
HMJr: Hello.  
William Batt: Hello.  
HMJr: Batt, are you.....  
B: Good morning.  
HMJr: Good morning. Are you so you can talk?  
B: Yes. There's nobody in my office.  
HMJr: This is Morgenthau.  
B: Yes, sir. I knew that.  
HMJr: What I just wanted to say was this. I made a report to the President of the situation that

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Operator: Yes.  
HMJr: And did Mr. Batt call back?  
Operator: No. I called over there and cancelled the call.  
HMJr: Well, if he's available, I want to talk to him.  
Operator: All right.

May 13, 1942  
10:55 a.m.

HMJr: Hello.  
Operator: Mr. Batt.  
HMJr: Hello.  
William Batt: Hello.  
HMJr: Batt, are you.....  
B: Good morning.  
HMJr: Good morning. Are you so you can talk?  
B: Yes. There's nobody in my office.  
HMJr: This is Morgenthau.  
B: Yes, sir. I knew that.  
HMJr: What I just wanted to say was this. I made a report to the President of the situation that

- 2 -

we talked about the other morning.

B: Yeah.

HMJr: I gave a copy of it to Nelson.

B: Yeah.

HMJr: Now, as far as I'm concerned, the matter is in their hands.

B: Good.

HMJr: And whatever they do is, of course, is their business; but I'm not - I put it in their hands, and that ends it as far as I'm concerned.

B: All right. I'll get ahold of Don's copy.

HMJr: And.....

B: I think I'd better not ask you over the telephone, unless you want to tell me what conclusion you came to.

HMJr: I didn't come to any conclusion. I just tried to give a factual report.

B: Uh huh.

HMJr: I didn't make any recommendations.

B: Good. Well, then I'll get ahold of Don's copy and see what suggestions may appear in order from this end. I appreciate very much your calling.

HMJr: But anyway, it's there, and I gave it to him, and as I say, as I recall it, I don't think I made any recommendations or - of any kind - I just - here were the facts as we saw it.....

B: Yeah.

HMJr: .....and I just gave it to the President and a copy to Nelson.

- 3 -

B: Okay. Thank you very much for calling me.

HMJr: Okay. Thank you.

B: Good-bye.

May 13, 1942  
11:05 a.m.

Grace  
Tully: Hello, Mr. Secretary. How are you, sir?

HMJr: I'm fine. I hear you didn't try our Dutchess  
County air.

T: No.

HMJr: What?

T: No, sir. I decided not to.

HMJr: Good for you.

T: (Laughs)

HMJr: I can't remember whether the President has press  
conference Friday morning or not, does he?

T: Yes. Friday morning at ten-thirty, uh huh.

HMJr: That's a bad time to ask to see him then, isn't  
it?

T: Yes, as a rule it is, because it holds him up in  
the morning, you see, when he's trying to get  
over here by ten-thirty.

HMJr: Well, couldn't I get the first appointment after  
press?

T: I should think so.

HMJr: What?

T: If they haven't got it already sewed up, I should  
think so.

HMJr: Do you want to negotiate it, or.....

T: Yeah, I'll do it. I'll ask Roberta.

HMJr: What?

T: I'll ask Roberta if she has, say, eleven o'clock.  
Huh?

HMJr: Eleven.

T: Eleven o'clock on Friday morning.

HMJr: If I can have that, yes.

T: Right.

HMJr: That will be very nice.

T: All right, fine, Mr. Secretary. I'll let you know.

HMJr: I thank you.

T: Right, sir. Good-bye.

May 13, 1942  
11:15 a.m.

## FINANCING

### Present :

Mr. Eccles  
Mr. Sproul  
Mr. Hopkinson  
Mr. Bryce  
Mr. Buffington

MR. BUFFINGTON: The Secretary has not seen that.

(Paper handed to Secretary)

MR. SPROUL: I suppose the first business is to present to you this report which Mr. Hopkinson and I were asked to prepare by the security dealers industry and the Federal Reserve Bank presidents in connection with an organization for promotion and sale of Government securities.

H.M.JR: May I read it now? Have you seen it?

MR. ECCLES: Yes, sir. I sat through the meetings with the group. I sat through the meetings with the group on Friday, and I am familiar with the developments.

H.M.JR: Have you got a copy of it?

MR. ECCLES: Yes.

H.M.JR: I would like to read it now, if I may. Is this to be made public the way it is written now?

MR. SPROUL: Not intended that way - a more general statement.

H.M.JR: If it was going to be made public, the second paragraph of VII, I don't think at that stage it reads too well.

MR. ECCLES: I wouldn't think that a statement of this

sort is designed for public release, would serve no purpose.

H.M.JR: Those two sentences in VII really contradict each other.

MR. SPROUL: The first one relates to the general committees, the second paragraph relates to the salesmen or the sales group working under the general committees.

MR. ECCLES: Look at the chart. That would maybe help you to get a picture. That is on the next page on the type of committee.

H.M.JR: When you say, "Whether or not some system of compensation for a selling group--"

MR. BUFFINGTON: Don't you mean, Mr. Sproul, in that phrasing that it is the group that may be involved in selling? It isn't the selling group in the sense we think of it.

MR. SPROUL: Not in the securities industry. It is the individuals, the salesmen who maybe out spending their time and their effort selling securities under the general direction of a committee which is serving voluntarily.

H.M.JR: Who is going to be the executive manager?

MR. SPROUL: The executive manager would be appointed by the committee, I assume, subject to your approval; and in my thinking, at least, he would be the director of the sales organization for the district under the committee.

H.M.JR: It is all right with me. As I say, the only thing that bothers me is that VII.

MR. SPROUL: That is the thing that bothered us most, too.

H.M.JR: Because you say "The members of all committees will be volunteer workers," so good, and,

"Whether or not some system of compensation for a selling group will have to be devised will depend upon the extent of the call made upon the services of salesmen--" Right there, if I call on you a little bit you don't want to be paid, or if I call on you a lot you do.

MR. ECCLES: That isn't the point.

H.M.JR: That is the way it reads to me.

MR. ECCLES: This list of committees, as I understand it, shown on that chart, would not expect compensation at all, but to the extent that they had thousands of salesmen, for instance, the usual house-to-house or institution- to-institution canvasser, it was just a question of how much work you could get without compensation to the salesman who is selling bonds or securities for a living. That was the point rather than these committees--

H.M.JR: I understand about the committees. But, I mean, I read this thing, "Whether or not some system of compensation for a selling group will have to be devised will depend upon the extent of the call--" Well, if I make a call on you a day a month, O.K., if I call on you a week a month, O.K., now, two weeks, no--

MR. SPROUL: There is some substance to that. It was felt that a job could be done on a voluntary basis, but not the thorough, complete job which in many of our minds is going to be necessary and which would require a substantial part of the time of security salesmen who have nothing else to live on but their time.

MR. HOPKINSON: It also enters into the ability to do it on an organized basis, where you can have a disciplined and thorough recovery and require reports. I visualize in many of these communities that it will be set up on a basis somewhat the same as we had in our United Charities and Community Chest drives in different

communities where there would be prepared under the sales director and the district or regional committees, detailed lists of people to be covered, not a house-to-house one that would interfere with the work your other committees are doing, but people more of the investor group. Those people would be assigned definite sales organizations. They would be set up and sent out - maybe if you had an issue that was going to be open for a week where a salesman would do nothing else but give his time for a week or ten days in covering maybe a dozen towns that weren't large enough to have their own competent sales organization, and if that kind of a coverage was going to be obtained with efficient selling people who are used to talking securities and comparing the merits of one type of security with another, we don't believe it can be effectively done on a voluntary basis when you get down to the lower strata. Now, it may be that on many issues that the committees would function, assist you on, there would be no such organization required at all.

I think on things that ordinarily are the type where you would open subscription books and close them reasonably promptly and have subscriptions made, and where the principal purchasers would be informed buyers, no such organization would be needed and no questions of compensation involved in any phase of it. On other types of issues we visualize the possibility of it. We didn't try to cross the bridge--

H.M.JR: Well, I couldn't accept this thing the way it is written. I mean, I can't accept it.

MR. BRYCE: You mean on that point, Mr. Secretary?

H.M.JR: Yes.

MR. BRYCE: Well, I can say to you--

H.M.JR: I mean, we are none of us children. I mean, you have got to look at this thing from both sides of the table. We set up this organization which is a swell organization, get it all set up, get a lot of publicity, all right; and then let's say - let's be frank about this thing, that some minority group says, "Well, now, all right we are not going to do this thing for the Treasury. To hell with them unless they pay us." Then I am saddled with a national organization, and I won't play ball because I won't pay them. Why let myself be put in that position? I am not going to. I am not going to. This question of compensation wasn't raised. I don't want anybody to work for me that can't afford to work for me.

MR. BRYCE: I think I can see your point.

H.M.JR: I don't want anybody to work for me - if what we are asking is unfair, and unjust, and the men can't afford to do it, then I am the last one to want to ask a fellow to work for me that can't afford to. But I am not going to be put in the position with tremendous publicity, everybody going, and then one group, one state, one city says, "We are not going to do this thing," and the thing spreads and I have got this big organization. I am stuck.

MR. ECCLES: The way this matter came up--

H.M.JR: I am stuck. I am in an impossible position.

MR. ECCLES: The investment banking group, in discussing it, raised the question, as I recall the meeting, as to what the extent of the work might be. Well, of course, nobody knew. I mean, it was impossible to say just what time might be required. And as I say, they raised the question. Well, there will be no difficulty getting a good many people on a volunteer basis for all their time, and you will get - but to the extent that the average salesman that has to sell securities for a living and has no other income or means of support, and they said there were thirty thousand, as I understand it--there

are thirty thousand employees of the industry, wasn't that right?

MR. HOPKINSON: I didn't have that figure. I think I heard it. I wouldn't want to be responsible.

MR. ECCLES: The secretary of the association said there used to be around fifty thousand within the last two years, now been reduced to about thirty thousand. People had gone in the Army, done other things. But there were about thirty thousand people. Some of those would devote a good part of their time on a volunteer basis, but to be able to get the whole thirty thousand, the whole industry--

H.M.JR: Marriner, look, the second paragraph, I would much rather have the industry come and say, "Mr. Morgenthau, we can't afford to have our salesmen work for you for nothing--"

MR. BRYCE: They are not going to say that to you.

H.M.JR: All right, then you wait--

MR. BRYCE: Because they don't all feel that way.

H.M.JR: All right, they say, "It is not fair or just for you to ask these fellows who can't make an honest living to go out and pound the pavement for you for nothing. The United States Government is not fair." All right, I will take the matter under careful advisement. I will consider whether we can or cannot pay them. See? But to have this thing here hanging over my head so I feel as though every time I am asking them to do something I am a beggar with a tin cup in my hand. I don't want to do it.

MR. HOPKINSON: I don't think, sir, anybody wanted to phrase anything in a way that would give you that feeling and yet, on the other hand, I think where we have a pretty wide representation of different parts of the country here who are in touch with the dealers and who

know the problems over the country, they didn't feel that it was fair to let an organization setup which, if we carried out some of our plans, would use practically the nation-wide manpower of the stock exchanges, and investment dealers all over the country and the Government security houses, without realizing that to get some part of that manpower, probably some system would have to be devised to compensate that underneath personnel. There are two types of problems. One, the fellow who is working on commission and is dependent solely on his commission for his living, and the other who is getting a salary and possibly a supplemental commission from a house that can't afford to pay that salary during a period when the salesman might be completely unproductive for two or three weeks.

H.M.JR: Look, Mr. Hopkinson, I don't mind anybody in business coming in to me and saying, "Morgenthau, I can't do this thing unless I get paid for it." That is an honest, straight-forward proposition, and I can consider it. Should I pay that man for his hire or shouldn't I? That is a perfectly honest, respectable thing, but I don't want the in-between.

MR. HOPKINSON: I think your district committees will be faced with that problem if they come to - when they come to try to set up the kind of extensive organization in the areas to be ready for your call. Now, whether it is appropriate in any particular type of call to couple a compensation feature with it or not would depend upon the type of issue that you were dealing with, and the kind of service it was going to require.

H.M.JR: We have got to settle it before we have any announcement.

MR. ECCLES: Wouldn't this be the - the Secretary, as I understand it, isn't asking here that any certain number of people be employed or that any certain amount of time be used; that here is a volunteer organization setup, the committees are operating on a volunteer basis, and such salesmen or such an organization in the community

that is willing to work on a volunteer basis make their services available to that committee and do as good a job as you can on a volunteer basis.

MR. BRYCE: I think you can get a good job there.

H.M.JR: Now, those that can't afford to do it on a volunteer basis won't respond. Those that could would. This is a volunteer job. If at some later date it was announced that you couldn't get enough to do it on a volunteer work, then it would be up to the Treasury to say, "We need more assistants, we need more workers than we are able to get on a volunteer basis." They could go to Congress and say, "We have tried this thing on a volunteer basis. It hasn't worked out as satisfactory because we can't get enough people that will do it on that basis."

MR. BRYCE: I think that is the way it ought to be set up.

H.M.JR: That is all right, but I just don't want the sword hanging over my head. I have just got to go to Congress and say, "Gentlemen, I need a million dollars in order to hire some security salesmen. Can I have it?" I will find whether I can get it or whether I can't get it, and the security salesmen can come up and make their own appearance. But in fairness to me, they sought me out. I didn't seek them out. Am I right?

MR. BRYCE: Surely. They have offered you their services on a volunteer basis.

H.M.JR: I am satisfied to go along on the basis that Mr. Eccles stated, provided that they lift that second paragraph out of the report.

MR. HOPKINSON: I didn't, personally, think that that second paragraph went any further than what Mr. Eccles said.

MR. SPROUL: That is what we had in mind.

H.M.JR: I mean, if that second paragraph is in there- I have got my own standards of ethics--I couldn't go along with it. I would feel very unhappy if that thing was in there. I would feel that I was asking people to do something which I had no right to ask them to do. If Mr. Bryce can come down here - I have never asked him - and afford to be here for a dollar a year, that is his business. He has decided he can do it. But if Mr. Bryce said, "I will come down here and work for a dollar a year, depending on how much you ask me to do," I would say, "I am awfully sorry, I can't use you." But depending upon how much you ask me to do--

MR. SPROUL: That was not the sort of a question we intended to raise there. The dilemma we faced was to bring to your attention that a job can be done with a voluntary organization.

MR. BRYCE: No question about it.

MR. SPROUL: But that the full job which may need to be done probably cannot be done with a voluntary organization.

H.M.JR: I am willing to have that - Eccles stated it better than I can - I am perfectly willing to have--

MR. ECCLES: Cross that bridge when you get to it.

H.M.JR: Yes, but not have it in writing.

MR. BUFFINGTON: There is one point that bothered me since that meeting.

H.M.JR: I have to go to the Doctor's in five minutes.

MR. BUFFINGTON: On Friday - you are building up quite an expensive organization to function here. I think the Secretary should know at the outset whether that expense is justified by knowing he has the follow through of these men.

MR. BRYCE: He will get a good follow through on a voluntary basis.

H.M.JR: This thing, for instance, I would like to know how much the people actually had to go down in their pockets during the past ten days for cash.

MR. BRYCE: They will have that.

H.M.JR: I would like to take a look at it. I would be very much inclined to reimburse them for any cash outlay they were put to, provided my red-tape boys tell me I can do it without going to jail.

MR. ECCLES: That was another aspect of this that was raised. There was the two aspects, what they called actual out-of-pocket money such as telephones and the use of a car.

H.M.JR: Marriner, if my red-tape boys whose job it is to keep me out of jail - if they say I can do it, I will say now I will do it.

MR. ECCLES: Don't you think, Mr. Hopkinson, that that would go quite a ways to meeting some of the questions that were raised there?

MR. HOPKINSON: Yes, sir, I think it would for everything except putting twenty or thirty thousand men out on the streets for a full week, ten days, or two weeks.

MR. SPROUL: That is covered in this report, and I think that the headquarters would be set up on a fiscal agency reimbursable basis so that that is covered in this organization; telephoning, telegraphing, and clerical help would be covered. I think that is perfectly possible without sending you to jail.

H.M.JR: I say, I will do it for what they spent the last ten days, but I don't want Mr. Hopkinson to feel I am trying to sell him a bill of goods. What I would like you to do is take this thing - take as long as you want to think it over, talk it over with your people; and if you arrive at the decision--

MR. BRYCE: You can settle it right this minute.

H.M.JR: Wait a minute, I don't want to rush you. If you arrive at the decision that you would like to do it leaving that paragraph out, with the understanding that you will give me all the service that you can on a volunteer plan, and if I am not satisfied, it is up to me to say so, and decide what I am going to do about it.

MR. BUFFINGTON: I think that is very fair.

H.M.JR: I don't want to rush you. He isn't happy about it. Hopkinson isn't happy about it.

MR. HOPKINSON: I only want to put this in, as far as my services are concerned and the group of people that we think of as members of these district committees, and even of members of the original committees where you set up original committees there, I don't think that any one of them has the slightest thought that they would expect any compensation of any kind. And it was only a feeling which is reflected to us by the representatives of the security houses all over the country that if you are going to turn our sales forces loose for an extended period of time, we have got to work out some plan where either their time is paid for or they get some sort of a compensation in lieu of the commissions they might otherwise be earning.

in selling other securities. How extensive you can get an organization without that is something that I am not in position to do any more than express a local point of view about. There is a meeting of the Investment Bankers Board of Governors next Friday, Saturday, and Sunday, week. There is a meeting of the NASD Governors over this week end.

MR. BRYCE: I think you are going at that wrong. I wouldn't formalize that way. I meant what I said. You can settle this thing right here on the basis that Mr. Eccles has put out. I listen to all these people, and I think you can do that. How far it goes remains to be seen. I think it would be a mistake - you ought to get this organized and clicking.

MR. ECCLES: From the standpoint of the memorandum why couldn't that aspect of it be deleted, in as much as it has now been discussed verbally with the Secretary; and he says that possibly sometime in the future the job may not be done satisfactorily, and if it isn't, he will say so, and we will consider another way. But so far as this memorandum - this is a memorandum which is offering the services of a volunteer organization to the fullest extent that you can get people to operate on that basis. Now, if that isn't adequate, then you cross the other bridge when you get to it.

MR. HOPKINSON: I think - would it be satisfactory to the Secretary if the brief statement you made, when you first spoke, were substituted for that paragraph? You just don't want anything in there now?

H.M.JR: I don't want anything in there. I don't want to rush you.

MR. SPROUL: I am somewhat of the feeling that in all of this discussion of compensation or no compensation we have been talking a little in a vacuum, and that nobody has in mind just what might be the method, the form, or the extent, if there was any. I think, in addition to whatever revision we make of this memorandum to you, we ought to immediately make a study of the possible methods

so that if and when the time comes, we will know what we are talking about, and how it might be done, and to what extent it might have to go.

H.M.JR: I don't know just what you mean when you say - you are fiscal agent, you can take care of all this stuff.

MR. SPROUL: I was talking of the office expenses at headquarters, telephone, telegraph, and clerical help.

H.M.JR: That isn't what Buffington was talking to me about this morning. The man who may have to use some gasoline or telephone calls, something like that - his telephone bills increased twenty-five percent due to this.

MR. ECCLES: Why couldn't that be handled likewise, fiscal agency?

H.M.JR: Dan says it might run forty or fifty thousand dollars.

MR. BUFFINGTON: I have no reason to make that statement, except it is just a guess of what I think it might run.

H.M.JR: Well, you are talking about the work the committee would do in the Federal Reserve building, but I am talking about what the members of these committees will do in their own offices.

MR. HOPKINSON: They weren't asked to keep any record of expenses on this last job that they did. I have no doubt it would be very welcome, some reimbursement out of pocket. I know they sent out a questionnaire - didn't tell the people in advance they were going to be sent out - that questionnaire. The result is, nobody paid any attention to it.

H.M.JR: You think this over. When you are entirely satisfied that you want to do business, I am at the stand here. I want you to sleep on it. Talk to your members and take as long as you want; and only when you are happy about it, come back and see me.

MR. HOPKINSON: I would say this, sir, as far as I am concerned, that in the light of this conversation, the subject of possible necessity of compensating some portions of the security industry is one which we may have to face at some time later on, that that accomplishes all that the second part of that paragraph did.

MR. SPROUL: That is all that was intended.

MR. ECCLES: Why can't that be deleted?

MR. HOPKINSON: I think it can in that light, as premature, but the subject having been brought up for discussion, that accomplishes what we felt it was fair you should have a realization of.

H.M.JR: I repeat myself, take all the time you want; and when you are satisfied that it is fair to ask you to take out that one paragraph, let me have it. But don't rush yourselves.

MR. BUFFINGTON: It is out.

MR. HOPKINSON: It is out. If you want to proceed with the organization of these district committees in the likelihood that there may have to be a job done in the near future of some kind, I don't want to be the cause of any delay. And, as I say, that paragraph didn't deal with any existing problem. It was merely putting at a minimum a possible future problem, and the industry didn't feel it was fair to you to let you feel that the kind of job that might have to be done through industry could be on an entirely volunteer basis.

H.M.JR: Well, we are both on notice.

MR. HOPKINSON: That is all right, sir.

MR. BUFFINGTON: You agree?

MR. HOPKINSON: Yes, sir.

MR. ECCLES: That being the case, it will take quite a while. Personally, I would like to see this thing set up,

because it will take several weeks before you really get it going, and it would be fine if it could be done here for the next financing.

H.M.JR: I would like it, but as I say, when we have got volunteers I don't believe in rushing them. Volunteers are volunteers.

MR. HOPKINSON: Well, we are still volunteers, and will do the top job you are asking us.

MR. SPROUL: It is important to get the organization established, whatever basis we are going to establish it on.

MR. BUFFINGTON: Am I representing you in carrying this forward?

H.M.JR: Yes.

MR. ECCLES: On that fiscal agency matter, it seems to me that it may well be that you might be able to meet the expense aspect of that thing. Did Dan say it could or couldn't?

MR. BUFFINGTON: He said it could be done, that is, the direct expense; that was fiscal agency expense.

MR. ECCLES: In other words, you have a man out in his office using his phone to sell bonds for the fiscal agent; it is another way of getting at it. Of course, it is a legal question as you say. If your red-tape boys say it can be done, that way--

H.M.JR: It is all right with me as long as I don't have to go to jail.

MR. BUFFINGTON: Could we have a meeting and report to you later this afternoon?

H.M.JR: Yes.

**SUGGESTED ORGANIZATION TO ASSIST IN THE  
DISTRIBUTION AND SALE OF GOVERNMENT SECURITIES**

**I. National Committee.**

The whole organization would be under the direction of the Secretary of the Treasury.

- (a) Presidents of the twelve Federal Reserve banks.
- (b) Liaison between Board of Governors of the Federal Reserve System and the Treasury--Chairman of the Board of Governors.

**II. Basis of Organization.**

The organization throughout the country should be set up by Federal Reserve Districts, with a committee for each district under the chairmanship of the President of the Federal Reserve bank of the district.

**III. District Committees.**

The District Committees would vary in size depending upon the geographical extent of the district and the location and number of its financial centers.

The personnel of the District Committees would be chosen primarily from the financial community including investment banker-security dealer groups and commercial bankers, but others whose position or personality would make their appointment appropriate and desirable could also be included.

The District Committee would be appointed by the President of the Federal Reserve bank in each district, after consultation with representatives of the securities industry and the banking community, appointments to be subject to the approval of the Secretary of the Treasury.

A Secretary of the District Committee (and of Executive Committee if appointed) would be appointed by the Chairman of the Committee.

**IV. Executive Committees.**

If the circumstances of the District or of the work to be done require it, in the judgment of the District Committee, a small Executive Committee would be appointed from the District Committee membership.

**V. Regional Committees.**

Committees for regional areas within districts would be appointed where necessary in the judgment of the District Committee. The size of such committees would be determined by the District Committee. Their personnel would be chosen, using the same criteria as in the case of the District Committee. Appointment would be by the Chairman of the District Committee subject to the approval of the Secretary of the Treasury.

VI. Headquarters Organization.

(a) Executive Manager who will have executive direction of the sales effort in each district, under the District Committee and its Executive Committee, if any.

(b) Quarters, equipment, and staff to be provided by the Federal Reserve banks on a fiscal agency reimbursable basis.

(c) Branch or regional headquarters to be set up on same basis in those districts where this is necessary.

VII. Compensation.

The members of all committees would be volunteer workers not seeking nor expecting compensation for their services.

Whether or not some system of compensation for a selling group will have to be devised will depend upon the extent of the call made upon the services of salesmen, which, in turn, depends upon the thoroughness and continuity with which sales are to be pressed and the kinds of securities which are to be sold.

VIII. Field to be Covered.

This proposed organization would be designed to assist in all of the financing operations of the Treasury except the sale of Series E. War Savings Bonds. In the sale of Series F and G War Savings Bonds it would, of course, work with the existing War Savings organization.

May 13, 1942  
4:05 p.m.

FINANCING:

Present: Mr. Buffington  
Mr. Sproul  
Mr. Hopkinson  
Mr. Bryce  
Mr. Eccles  
Mr. Graves  
Mr. Kuhn

MR. SPROUL: We have here a revised report we are ready to present to you.

H.M.JR: All right, sir. I didn't expect the Chairman back.

MR. ECCLES: You didn't? Now listen, boy, I am never going to let go of a thing until it is finished if I once get hold of it.

H.M.JR: It was a shame about Leon going up there. He did a swell job, but the papers misquoted it. The story is on the front page, and then he gave a formal statement. The only paper that ran it was the New York Times. Did you see it?

MR. ECCLES: Yesterday?

H.M.JR: It is in this morning's New York Times.

MR. SPROUL: I saw it in which he said what he said to the committee, rather than what the members of the committee said he said.

H.M.JR: Yes, but it is very unfortunate.

MR. ECCLES: You can't ever appear, though--

H.M.JR: Before an executive hearing.

MR. ECCLES: There isn't such a thing. You might just as well have an open hearing. In fact, you had better, because then you have got the record.

H.M.JR: Senator Couzens, you know, every time they went into an executive hearing, he would walk out of the room, he wouldn't stay.

MR. ECCLES: I found out when they wanted to have a closed hearing on my confirmation, Glass and that group - they wanted to have a closed hearing, and Couzens insisted that it be an open hearing. He wouldn't stay, and so he forced him to have an open hearing.

H.M.JR: He wouldn't stay. He was an unusually good public servant, Couzens.

What is different on this? (Indicating paper)

MR. SPROUL: Paragraph VII has been taken out entirely and that is the only change.

H.M.JR: You took it out entirely?

MR. SPROUL: Yes.

H.M.JR: Fine. Are you happy?

MR. HOPKINSON: Yes, sir.

MR. BUFFINGTON: Mr. Secretary, that last paragraph, number VII, now, relating to "F" and "G" Bonds, is not strictly in accordance with my last conversation with you, but Mr. Eccles and Mr. Sproul thought there were some phases of it that they wanted to discuss.

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

MR. SPROUL: It says that everything that will be done will be done in cooperation with the existing War Savings Staff, but we have in mind that you want to sell "F" and "G" Bonds through the securities industry, through the

banks wherever they can be sold, and we think that it is a job that can be done by the banks as well as by others.

MR. ECCLES: It isn't - we felt that it would be a mistake to make it appear that "F" and "G" were excluded, that "F" and "G" are quite different than the pay-roll deduction program, than the series "E"; that the real market for "F" and "G" is to the large investor - and the person that can take fifty thousand a year is not a small investor - and that the banks and the security dealers, if they are made to feel that it is their responsibility, as well as the War Savings Staff, to try to sell these securities to the people that they know they can interest, we think we will get a wider distribution of those, which in no way, it seems to me, prevents the War Savings Staff from likewise selling them. But we felt if that wasn't included that it may well be interpreted as being excluded, and the banks and the security dealers will say, "Well, we have got nothing to do with that."

H.M.JR: I think that is smart. I am glad it is in. I am perfectly happy.

MR. BRYCE: I pointed out to them, Mr. Secretary, that the War Savings Staff is putting a lot of stress on "F's" and "G's" right now. This memorandum was sent out yesterday on "F" and "G" suggesting that committees be formed, and that all ties in the quota, and so forth.

MR. HOPKINSON: He will get his quota just the same.

H.M.JR: Yes, we need some help, because we are running ahead on our "E's" for May, but we are running behind on our "F" and "G's".

MR. BUFFINGTON: Graves didn't want anything done that would infer this group was taking the responsibility he had already assumed. When he and I talked he emphasized the importance of having investment bankers work as individuals, not as members of this group. I don't think it makes any difference in the ultimate.

H.M.JR: This is all right (indicating "Suggested Organization" paper). What do you do with this? How do you let the public in on that?

MR. ECCLES: That is what we have been doing. We weren't all this time taking--

H.M.JR: I am amazed that the Chairman gives us so much time. I am amazed and pleased.

MR. BRYCE: We got him all stirred up, ready to go.

MR. BUFFINGTON: In quotes (indicating paper) is the press release which will be included. This is a separate copy of the press release.

MR. ECCLES: I can't separate this from the open market committee job. You know how much time that takes. I think this is closer related to the whole picture.

H.M.JR: I am not an English student. Down at the bottom, the last three lines, "of which the Secretary of the Treasury will be chairman and for which the Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between the Reserve Banks and the Treasury" - if I were writing it, I would say, "of which the Secretary of the Treasury will be Chairman" period. Then I would say, "Liaison between this Victory Fund Committee and the Reserve Banks will be furnished through Mr. Eccles, Chairman of the Board of Governors of the Federal Reserve System."

MR. SPROUL: I think that is a better statement from the standpoint of a press release, to have two sentences.

H.M.JR: It should be two sentences.

MR. ECCLES: It is a long sentence this way.

H.M.JR: If you want to start off, say "The Chairman of the Board of Governors" and just cut out "and for

which"--

MR. ECCLES: That is better.

MR. HOPKINSON: "The Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between", that is better.

MR. ECCLES: I think that is smoother.

H.M.JR: If I didn't change a word I wouldn't think I was contributing anything.

MR. SPROUL: You act like an editor with a blue pencil.

MR. BRYCE: There is one important thing in that wire that I call to your attention, Mr. Secretary, from your standpoint, and that is the use of the expression, which I am sure will be wonderfully used, "Victory Fund."

H.M.JR: I got that. I like it, and I would underline that in your press release.

Now, on page 2, "This organization in no way duplicates the work now being done by the War Savings Staff"--

MR. ECCLES: We didn't have that in at first, but it was--

H.M.JR: I always hate to apologize. Why raise it in the people's minds?

MR. HOPKINSON: For fear it would be raised.

MR. SPROUL: And that there might be confusion. They might think this was superseding the War Savings Staff, an impression which we wanted to avoid.

H.M.JR: Wouldn't it be better to say, "This organization supplements" rather than "in no way duplicates."

MR. BUFFINGTON: Then use the word you used, "complements."

MR. BRYCE: I think you have to say something about the War Savings Staff.

H.M.JR: "This organization complements" rather than - would you say "complements"?

MR. SPROUL: "Complements and in no way duplicates the work now being done by the War Savings Staff."

MR. ECCLES: I think "complements" is better.

MR. HOPKINSON: Yes.

H.M.JR: "Complements and in no way duplicates the work now being done by the War Savings Staff", it is all right.

I want to do Graves and Kuhn the courtesy of letting them look through it because it is fairly important. I will make sure it is all right.

MR. BUFFINGTON: In the last sentence, Mr. Secretary, the committee of the securities industry will send out a wire direct to their people in the district, suggesting that they get in touch with the Federal Reserve Bank. That wire is being prepared.

H.M.JR: Is this the press release?

MR. BUFFINGTON: That is a telegram from you to the Federal Reserve Bank presidents, and we included in it the press release, which is on a separate paper.

MR. SPROUL: Mr. Eccles has a separate telegram, which, as liaison man, he will send out.

H.M.JR: That is all right.

(Mr. Graves and Mr. Kuhn entered the conference.)

H.M.JR: Look, just you two gentlemen see if that looks all right to you, both of you, will you? (indicating paper)

What is this, George, on my desk?

MR. HOPKINSON: That is the separate release which is incorporated in the telegram.

MR. BUFFINGTON: The same changes will be made in that that are made in the telegram.

H.M.JR: If you have got any objections, say them now or hold your peace forever.

MR. GRAVES: I think there should be a positive statement in this memorandum and in the release to the effect that the work of these Victory Fund Committees will chiefly relate to the regular Treasury financing. In other words, that is just repeating what is said negatively here, which I think ought to be said positively.

This sentence is: "This organization in no way duplicates the work now being done by the War Savings Staff." I think it might be well to add a sentence there to the effect that the work of the Victory Fund Committees will be chiefly in relation to the regular Treasury issues and not the War Bonds.

MR. SPROUL: The word "chiefly" in there would fit the situation. I think it is clear in the other statement that we have in mind that this organization might work with your organization and complement your organization in the sale of "F" and "G" savings bonds.

H.M.JR: Couldn't you just add something on there, "This new organization has been set up to chiefly take care of the Treasury's regular borrowing", or whatever they call it.

MR. GRAVES: That is the thought I have.

MR. ECCLES: It seems to me the difficulty about that is that you are making a definition or prediction as to the kind of financing that might be done. It seems to me that this organization is set up to do whatever Treasury financing that the Secretary of the Treasury may require. He is chairman of the committee. He has an organization set up, and I would expect that this organization would be used to carry out any type of Treasury financing that the future might require and that seemed to be necessary to meet the situation; but in the process of doing that it in no way would duplicate the work of the War Savings.

Now, when you don't - if you do as you say there, it seems to me that you are attempting to groove it into some pattern that is already made, which I don't know that you could do.

MR. HOPKINSON: They might well be working, both on the same issues of securities but in different fields and through different mechanisms.

MR. GRAVES: What I am afraid of is the effect of a memorandum or announcement of this kind on our War Savings organization. They see this in the papers and say, "What has happened?"

MR. BRYCE: I looked out for that in getting something in this memorandum.

MR. GRAVES: But is it enough?

MR. BRYCE: It may not be. There wasn't anything in it at all until I suggested that.

MR. SPROUL: We all recognize, then, that something should be in, but we face the dilemma of not wanting to try to define and limit in this statement what the possible future fields would be. Therefore, we chose this negative statement, which we thought gave your organization the clearance without limiting future operations.

MR. GRAVES: Of course I had the same thing in mind, Mr. Sproul, when I suggested that we use the word "chiefly." I think that would save this thing, and it meets Mr. Eccles' point, too, as I see it.

MR. SPROUL: As far as I am concerned, that is all right with me. I don't think we want to bog down, as long as we understand what the situation is.

MR. HOPKINSON: I think it weakens it a little bit.

MR. ECCLES: The thing I wanted to avoid was, the Secretary in effect sets up a committee, a national committee, of which he is the chairman, and then undertakes to give a public statement that puts limitations upon this committee.

MR. SPROUL: I think that is right.

H.M.JR: Yes, but there is the other side of it. You have got an organization that is under the most terrific pressure right now to produce, and there are enough troubles, with Henderson's misquoted statements and Gore's proposed bill, and all the other things, that undermine these people.

I don't think it hurts if you said something like this, "This new organization is created to chiefly sell the Treasury's regular financing."

MR. KUHN: I think that unless something is put right in the lead it is going to be a confusing statement rather than an informative one, and I would put "to be made up of bankers and members of the securities industry to aid in Treasury financing, chiefly in connection with the sale of market securities", or something of that kind.

Wouldn't that do it? I would like to put it right up there. I don't think it circumscribes it too much.

H.M.JR: Graves and his people are under the most

terrific pressure today, and the last thing any of us want to do is to undermine the thing. There is enough undermining, and termites, around here now without trying to add to it.

MR. HOPKINSON: Would a possible ~~approach~~ be to add to the last paragraph where it refers now to the War Savings Staff "which will continue all their present activities"?

H.M.JR: No, I think Kuhn is right, in his newspaper training. I think you ought to have something in the front.

MR. ECCLES: There is this thought, it seems to me, you have got. You are going to have difficulty, in my opinion, getting the kind of results that ought to be gotten on your series "G" and "F" bonds without a real responsibility and effort being made by the banks and by the security dealers. But if it makes it appear, this release, that this organization is designed primarily for the purpose of handling market securities only, that would seem to indicate that series "G" and series "F" were outside of the scope of this organization.

If that is what you want, all right, but I think that you will suffer very measurably if that is done because the investors in series "F" and "G" bonds are the kind of people that are going to be reached pretty largely, not through your canvassers, not in the same way that you will reach the people who will put their money in "E" bonds - they have got to be reached - if we could make the banks, make the investment houses, feel a sense of responsibility to actually get out and to sell these "G" bonds, I think that you will get a much better result than if you make them feel that they are largely excluded from it, which I think this tends to do.

MR. BRYCE: If you are talking bookkeeping - I mean, we are all working for the Treasury and want to

sell as many bonds as we can. A bond man is going to sell everything he can sell.

(The Secretary left the conference temporarily.)

MR. BUFFINGTON: That question was raised today over the long distance from Chicago by the chairman of the group who is now working with you on "E", "F", and "G", and he said to me, "Does the formation of this new group which we hear about mean that we can no longer put the same kind of effort we are now putting on "F" and "G" bonds?" I said, "No, it doesn't. It means that you will do it as individuals", following your (Graves) and my talk. He said, "We believe that if we can do it as a member of this organization we will be more effective to the War Savings Staff than we would be if we were confined only to work on the other setup."

MR. ECCLES: I am perfectly sure that is true with your banks.

MR. BRYCE: You want to be sure they go in the quota.

MR. GRAVES: You are talking about two different things. The functions of these Victory Fund Committees will be perfectly well known to the members of those committees. They will know, as I understand, that they are at perfect liberty to put effort on the sale of "F" and "G" bonds, and, for that matter, on "E" bonds where they can do it.

I am thinking about the publicity aspect of this thing, where suddenly there breaks in the paper an announcement of new committees that are to have responsibility in connection with the financing or the marketing of Treasury securities. If we were there in that publicity to circumscribe this thing, as I suggested, to point out that their functions would relate chiefly to the sale of open market issues, or what not, that would in no way affect the actual work that

is to be done by these Victory Fund Committees. But the newspapers wouldn't carry the story in such a way as to disturb every one of our War Bond committees in the whole country.

MR. BRYCE: We are with you a hundred percent.

MR. GRAVES: That is what I am afraid of.

MR. ECCLES: It seems to me that instead of putting this at the bottom, as you say - I wouldn't object to putting it at the top, but my thought is that I don't like the idea of making it appear that this committee is set up to do a job of what we term marketing - the usual Treasury marketable securities.

I think that in itself is a very limiting factor that is unwise if you want to get the best results.

What is said here, "This organization complements and in no way duplicates the work now being done by the War Savings Staff", if that idea can be brought right in the first part of it that is perfectly all right; but it seems to me that that ought to be sufficient to indicate here that you have got a War Savings Staff, that there is another organization here that is available to assist and to do another job, and it doesn't duplicate it at all.

MR. HOPKINSON: I like your suggestion very much of adding that as part of that first paragraph.

MR. GRAVES: I don't think that is sufficient.

MR. KUHN: It is still confusing, Mr. Eccles. People will say, "Well then, what is it, what does it do?"

MR. ECCLES: It sells largely series "E", and series "G" and "F" to the fullest extent it can.

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MR. BUFFINGTON: Suppose you amplify that sentence in this way, "This organization will work chiefly on general market issues and will in no way duplicate the work now being done"--

MR. GRAVES: I think that will be all right. I would rather just say "will in no way duplicate" and leave out the "complements."

MR. BUFFINGTON: That sentence can be lifted, "will work chiefly on general market issues and will in no way duplicate the work now being done" and put that in the first sentence.

MR. ECCLES: Whatever you fellows say. It has the same objections, from my point of view. What I think is if you are going to get your results on your series "F" and "G" bonds you are going to have to actually get this organization to work.

MR. BUFFINGTON: Mr. Eccles, after all, that is their problem, so however you want it done to get the greatest advantage from this group we want to do it.

MR. ECCLES: I am interested in it from the standpoint of open market, from the standpoint of reducing the amount of financing we have to do in the open market. We have a big job to do on what is going to be required as an open-market thing, and I am tremendously interested in getting as much as possible placed outside what we term market securities, through the bank system; and so you have an interest in getting the quota, and I have an interest in helping you get it, and even exceeding it.

MR. GRAVES: That is right, and we want to take full advantage of the work of this organization on all our issues. There is certainly no intention on my part to indicate that we don't want work to be done. We want as much work to be done on the whole series of War Savings Bonds as we can get. We just don't want our organization to interpret anything that is said to mean that they are in any way relieved of the responsibility for working on "F" and "G".

MR. HOPKINSON: Nor do we want to say something in this that will make it difficult for us to get the kind of men in this organization setup which we want. When you speak of "chiefly on general market issues", most people interpret that to mean the kind of things that you open subscription books for and they are closed the same day.

This organization is being set up to do something much broader than that in tapping an investor market, and I think that you can't just say "general market issues", without either elaborating that or leaving it to this other thing, without hampering us in our organizational setup.

(The Secretary re-entered the conference.)

MR. ECCLES: I said this to Graves, Mr. Secretary, while you were out, that it is true he has the responsibility for getting a quota here and that I feel, as the chairman of the Open Market Committee, that I have a responsibility of trying to get as many securities sold outside of the banks as it is possible to do, tapping every dollar of outside money that is possible to be tapped. I am just as anxious that his quota be reached, and exceeded, as he, and that is true of the Reserve System as a whole.

We all, as you know, have been attempting in every way possible to reduce the amount of open-market financing and increase the amount of sales to direct investors rather than to the banks, so that - I mean, the Reserve System has the same interest in this matter as the Treasury.

H.M.JR: That is right.

MR. ECCLES: So that the question of selling series "G" and "F" bonds, which are bonds to large investors, is, we feel, a responsibility that we have, as well as you people have.

MR. KUHN: Mr. Secretary, could I read you a lead that I think would do this job? It would be the beginning of your statement, the beginning of the release: "Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury's financing programs. This organization will work chiefly on general market issues and will in no way duplicate the work of the War Savings Staff."

MR. SPROUL: That "general market issues" is undesirable because that has a certain connotation in the market which, as Mr. Hopkinson says, is the one where you open the subscription books this morning and close them tonight. It may be like this two and a half percent issue; that is not considered a general market issue, and yet it would be just the kind this organization would want to work on.

I think if you are going to have any limiting terminology it can't be "general market issues." It must be something else.

MR. ECCLES: If you are going to confine it to that, there is no point in setting up the committee.

MR. HOPKINSON: You don't need a committee for that.

MR. SPROUL: However, I think we understand ourselves here as to the functions of these two organizations and where they do not duplicate, and where they complement, and where they will be working together, so we are just talking about a question of public relations and public reaction to a statement. We ought to be able to find a way to state it which would not violate what we know to be the fact.

MR. GRAVES: I am just afraid of frightening our people, Mr. Sproul.

MR. SPROUL: I think we ought to be able to find some way to state that.

MR. KUHN: The Secretary has a suggestion that might get around this difficulty. Instead of talking "general market issues" we say, "This organization will work chiefly with the larger investors and will in no way duplicate the work of the War Savings Staff."

MR. SPROUL: That suits me.

MR. ECCLES: That suits me; that is what we expect to do.

MR. GRAVES: I think that is all right.

H.M.JR: Does Mr. Eccles like that?

MR. ECCLES: Yes.

MR. SPROUL: Throw that up in the first paragraph?

MR. KUHN: Yes.

MR. ECCLES: That meets it. That leaves "G" and "F" or any other series that is available to the large investors open for this committee to work out. That is what I didn't want to be excluded by saying "market issues." That meets it.

MR. KUHN: May I raise one little point, also, that confused me a little in here in reading this. You say that "The organization announced today \* \* \* developed through voluntary assistance given the Treasury by the banking and securities industries." Certainly the new assistance is also voluntary, isn't it?

MR. ECCLES: Yes.

MR. BUFFINGTON: Yes.

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MR. KUHN: I mean, it is not a question of paying commissions or anything of that kind, which some readers might read into that.

MR. SPROUL: The next paragraph goes on to say, "The collaboration of these organizations will be formalized with the establishment of the new Victory Fund Committees." Heretofore it has been voluntary but unorganized and not formalized. We go on to say it will be formalized.

MR. KUHN: Could we add the word "voluntary" and say "The voluntary collaboration of these organizations"?

H.M.JR: I am not prompting them on this. He doesn't know about this morning's discussion.

MR. ECCLES: This has no relationship to it. This question wasn't raised. You can take out the first "developed through assistance." There is no point in putting voluntary in.

MR. KUHN: I am just trying to eliminate any possible confusion in the reader's mind.

MR. ECCLES: I think you either ought to take it out of the one, or take it out of the other.

H.M.JR: It is all right with me. Now, Harold, I don't want to rush you, are you all right?

MR. GRAVES: No, that is all right. I think we will have to promptly get out a bulletin to our people and explain exactly what is meant, and I don't think we will have any difficulty. I am sure that they will all welcome the help of this organization.

H.M.JR: I like "with the larger investors" and yours (Mr. Graves) with the smaller investors.

MR. ECCLES: I don't want to give the banks and the security dealers any opportunity for feeling that any

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failure on the part of "G" and "F" is not their responsibility at all, that after all, I don't want them to be able to say, "We had nothing to do with that. That was in somebody else's hands."

H.M.JR: This is all right now?

MR. ECCLES: Yes.

MR. GRAVES: I don't want this impression to be left, that this use of this phrasing in a press release or in a memorandum is to be taken to mean that our people are to stay away from larger investing.

H.M.JR: Doesn't it say "chiefly" with?

MR. GRAVES: That's right.

MR. SPROUL: The same as this new group might sell a bond to a smaller investor.

MR. GRAVES: That is correct. I don't want our people to be circumscribed in any way in the work that they do.

H.M.JR: Anything else?

MR. GRAVES: Nothing else. I think that is all right.

MR. ECCLES: All right with me.

MR. HOPKINSON: Yes, sir.

MR. SPROUL: All right with me.

MR. BRYCE: All right with me.

H.M.JR: When would this appear in the papers, so Graves will know how much time he has to reach his people?

MR. BUFFINGTON: We had planned on releasing it for tomorrow morning.

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MR. GRAVES: That is all right, a day or two won't make any difference with my crowd.

MR. ECCLES: It is going to take a week to get this thing set up.

H.M.JR: Tell Chick Schwarz there is something coming.

MR. BUFFINGTON: He knows that.

MR. ECCLES: If that is the case, then, this wire to the banks should get out over the wires tonight so that they won't read this in the papers.

MR. HOPKINSON: Might it be wiser to hold the whole thing and release it sometime tomorrow when you will have a little more opportunity to get these things rewritten and set up.

MR. BUFFINGTON: Schwarz suggested releasing it for tomorrow morning's papers.

MR. ECCLES: The changes are just negative.

H.M.JR: Just as a matter of curiosity, is the teletype in our various state offices?

MR. GRAVES: Not yet. We are working on it. That is going to be hard, because of the lack of equipment.

H.M.JR: Can't get the equipment?

MR. GRAVES: There is difficulty, we are working on it.

H.M.JR: The War?

MR. GRAVES: Yes.

H.M.JR: There is a good joke on us. We have been trying for I don't know how long to get two hundred thirty-three typewriters for our collectors of internal revenue.

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As far as I am concerned, they needn't have a typewriter. It means I don't have to have my income tax checked. We are short two hundred thirty-three typewriters, and we can't get them. The last I heard we haven't been able to get them, two hundred thirty-three for the collectors of internal revenue.

MR. ECCLES: I wonder if the War Production Board is short down there on anything.

MR. GRAVES: They are on the preferred list.

MR. ECCLES: I would think the Bureau of Internal Revenue certainly ought to be on the preferred list right now.

H.M.JR: But they are not. That is the joke.

MR. SPROUL: Nobody is anxious to have them on the preferred list.

H.M.JR: The Director of the Budget doesn't see it, but - well, I am very happy, I think it has been fine. I think it is a fine spirit all the way through. I like the name, it gives us another string to our bow. We will need it. It just gives me that much more reassurance that I can face this tremendous task that I have got with a feeling that I can accomplish it. Thank you all very much.

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SUGGESTED ORGANIZATION TO ASSIST IN THE  
DISTRIBUTION AND SALE OF GOVERNMENT SECURITIES

**I. National Committee.**

The whole organization would be under the direction of the Secretary of the Treasury.

- (a) Presidents of the twelve Federal Reserve banks.
- (b) Liaison between Board of Governors of the Federal Reserve System and the Treasury--Chairman of the Board of Governors.

**II. Basis of Organization.**

The organization throughout the country should be set up by Federal Reserve Districts, with a committee for each district under the chairmanship of the President of the Federal Reserve bank of the district.

**III. District Committees**

The District Committees would vary in size depending upon the geographical extent of the district and the location and number of its financial centers.

The personnel of the District Committees would be chosen primarily from the financial community including investment banker-security dealer groups and commercial bankers, but others whose position or personality would make their appointment appropriate and desirable could also be included.

The District Committee would be appointed by the President of the Federal Reserve bank in each district, after consultation with representatives of the securities industry and the banking community, appointments to be subject to the approval of the Secretary of the Treasury.

The Secretary of the District Committee (and of Executive Committee if appointed) would be appointed by the Chairman of the Committee.

**IV. Executive Committees**

If the circumstances of the District or of the work to be done require it, in the judgment of the District Committee, a small Executive Committee would be appointed from the District Committee membership.

**V. Regional Committee**

Committees for regional areas within districts would be appointed where necessary in the judgment of the District Committee. The size of such committees would be determined by the District Committee. Their personnel would be chosen, using the same criteria as in the case of the District Committee. Appointment would be by the Chairman of the District Committee subject to the approval of the Secretary of the Treasury.

VI. Headquarters Organization.

(a) Executive Manager who will have executive direction of the sales effort in each district, under the District Committee and its Executive Committee, if any.

(b) Quarters, equipment, and staff to be provided by the Federal Reserve banks on a fiscal agency reimburseable basis.

(c) Branch or regional headquarters to be set up on same basis in those districts where this is necessary.

VII. Field to be Covered.

This proposed organization would be designed to assist in all of the financing operations of the Treasury except the sale of Series E War Savings Bonds. In the sale of Series F and G War Savings Bonds it would, of course, work with the existing War Savings organization.

Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury in the sale of Government securities.

Because the nation's war needs have increased tremendously the money-raising responsibilities of the Treasury, the Secretary of the Treasury has accepted the offer of the banking and securities industry to coordinate their efforts in helping to distribute Government securities.

The organization announced today, in which committees headed by presidents of the Federal Reserve Banks will be set up in each Federal Reserve district, developed through voluntary assistance given the Treasury by the banking and securities industries.

The collaboration of these organizations will be formalized with the establishment of the new Victory Fund Committees tied together nationally by a committee of Federal Reserve Bank presidents, of which the Secretary of the Treasury will be chairman and for which the Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between the Reserve Banks and the Treasury.

In some districts executive committees may be set up for operating purposes, and district committees, with approval of the Secretary of the Treasury, may set up regional subcommittees.

- 2 -

This organization in no way duplicates the work now being done by the War Savings Staff.

May 13, 1942

TO PRESIDENT OF EACH FEDERAL RESERVE BANK

I am making public announcement this afternoon of plan for organization of banking and securities industry by Federal Reserve districts to promote sale of Government securities as follows:

"Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury in the sale of Government securities.

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"The collaboration of these organizations will be formalized with the establishment of the new Victory Fund Committees tied together nationally by a committee of Federal Reserve Bank

- 2 -

presidents, of which the Secretary of the Treasury will be chairman, and for which the Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between the Reserve Banks and the Treasury.

"In some districts executive committees may be set up for operating purposes, and district committees, with approval of the Secretary of the Treasury, may set up regional subcommittees.

"This organization in no way duplicates the work now being done by the War Savings Staff."

I would like you to act as chairman of organization for your district and to proceed immediately with organization of your committee or committees within general framework of report prepared by joint securities industry Federal Reserve Bank group which met in Washington last Friday.

National committee of securities industry will designate representative or representatives to consult with you concerning representation of securities industry on committee or committees to be appointed by you for your district subject to my approval.

Secretary of the Treasury.

FROM COPY

BUREAU \_\_\_\_\_

CHG. APPROPRIATION Expenses of Loans A&E

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

May 13, 1942.

To Presidents, Federal Reserve Banks:

Boston, Mass.  
New York, N. Y.  
Philadelphia, Pa.  
Cleveland, Ohio  
Richmond, Va.  
Atlanta, Ga.

Chicago, Ill.  
St. Louis, Mo.  
Minneapolis, Minn.  
Kansas City, Mo.  
Dallas, Texas  
San Francisco, Calif.

I am making public announcement this afternoon of plan for organization of banking and securities industry by Federal Reserve districts to promote sale of Government securities as follows:

"Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury's financing program. This organization will work chiefly with the larger investors and will in no way duplicate the work of the War Savings Staff.

"Because the nation's war needs have increased tremendously the money-raising responsibilities of the Treasury, the Secretary of the Treasury has accepted the offer of the banking and securities industry to co-ordinate their efforts in helping to distribute Government securities.

"The organization announced today, in which committees headed by presidents of the Federal Reserve Banks will be set up in each Federal Reserve district, developed through assistance given the Treasury by the banking and securities industries.

"The collaboration of these organizations will be formalized with the establishment of the new Victory Fund Committees tied together nationally by a committee of Federal Reserve bank presidents, of which the Secretary of the Treasury will be chairman. The Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between the Reserve banks and the Treasury.

"In some districts executive committees may be set up for operating purposes, and district committees, with approval of the Secretary of the Treasury, may set up regional subcommittees."

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National committee of securities industry will designate representative or representatives to consult with you concerning representation of securities industry on committee or committees to be appointed by you for your district subject to my approval.

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

Initialed:

G.B.  
F.K.

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Thursday, May 14, 1942.  
5/13/42

Press Service  
No. 31-59

Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury's financing program. This organization will work chiefly with the larger investors and will in no way duplicate the work of the War Savings Staff.

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In some districts executive committees may be set up for operating purposes, and district committees, with approval of the Secretary of the Treasury, may set up regional subcommittees.

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**TELEGRAM**  
**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**  
LEASED WIRE SERVICE  
**WASHINGTON**

May 13, 1942

TO PRESIDENT OF EACH FEDERAL RESERVE BANK

Secretary of Treasury is today advising you of press release on organization of banking and securities industry by Federal Reserve districts to promote sale of Government securities and designating you as chairman for your district. General form of organization will be as outlined in memorandum sent to you on Saturday by Sproul. Only change paragraph 7 of that memorandum eliminated so that organization will be set up on voluntary basis except for headquarters and possible sub-headquarters clerical staff, equipment, etc., which will be on fiscal agency reimbursable basis.

Suggest you take steps to obtain as full publicity as possible on organization within terms of Secretary's press release which he is transmitting to you.

Eccles

May 13, 1942  
4:53 p.m.

HMJr: Donald.

Donald  
Nelson: Yes, sir.

HMJr: This is a tough one. (Laughs) Let me tell you what happened. Are you so you can speak?

N: Yes, I am.

HMJr: After I called you, I got hold of Batt, and I said, "You know the matter that you and I talked about, and I just want to let you know that I've given - made a report to the President, and given a copy to Mr. Nelson." He said, "Well, what did you recommend?" I said, "Well, as I remember it, I recommended nothing; I just gave the facts."

N: That's right.

HMJr: And he said, "Well, did you come to no conclusions?" I said, "No, I just stated the facts and the rest is up to the President and Mr. Nelson. As far as I'm concerned, I've done what I think is my responsibility." Hello.

N: Yes.

HMJr: So again he said, "Did you make no recommendation?" I said, "No." So he said, "Well, I'm going right in to get a copy of it." Well, he kind of took my breath away.

N: I see.

HMJr: And I didn't say anything.

N: Well, you see, one of the principles I have, I never release anything when a man tells me a secret until he tells me so.

HMJr: Well, I didn't say anything. I suppose I should have said, "Well, you can't see it, or you can," but I made no commitment whatsoever, because it left me breathless.

N: I see.

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HMJr: Now, of course, there's a lot of stuff in there about another man.

N: Yes, that's the point.

HMJr: And there's a lot of stuff in there which, frankly, I don't want him to see.

N: Well, now, may I just say this. I've returned it to you.

HMJr: Oh, I'm perfectly willing. Yes, it's my document.

N: It's your document. You gave it to me.

HMJr: That's all right. I should carry it.

N: Well, I'll do it if you want me to.

HMJr: No, because he's working for you.

N: You see, I don't like to dispute his honesty. The only thing that makes it this way was - I wouldn't hesitate at all, but I.....

HMJr: Well, if he - you return it to me.

N: I'll do that.

HMJr: Now, let me ask you this. If he insists on seeing it, I'll have the thing rewritten - or rather I'll take the part out.

N: Yes. That was the.....

HMJr: I'll take everything out except the personal part which affects him.

N: That's right.

HMJr: What?

N: That's right.

HMJr: What do you think of that?

N: I think that's the thing to do. If it were just that, I see no harm in it at all.

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HMJr: But all this stuff about the Bosch and all those other people - I mean, immediately.....

N: Well, there was too much - there's too much in there about the other man, and I think it would just be - why, that's why I just wanted to exercise double discretion and have you tell me that it was all right to do it.

HMJr: No. You return it, and then if he insists on seeing it, I'll eliminate the other man and say this is what I sent in.

N: That'll be all right. I see no harm in that. As a matter of fact, I think that would be a good thing to do.

HMJr: Well, personally, if you talk to him, see, might I make a suggestion.

N: Yes, certainly.

HMJr: I don't know what you're going to have in your mind, but if I could make a suggestion and say this, that if you - Nelson - are going to do anything, see.....

N: Yes.

HMJr: .....take any action, then you will ask Morgenthau to show it to you.

N: That's right.

HMJr: But pending your taking any action, there's no reason for him to see it.

N: That's right. I think that's all right. I'll do that.

HMJr: Isn't that all right?

N: That's perfectly all right.

HMJr: I mean, in other words, if he's going to be on trial, then he's entitled to see the evidence.

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N: That's right.

HMJr: But if he's not on trial, then he isn't entitled.

N: I would think that's a fair way to put it. I'll do it that way.

HMJr: Is that fair?

N: Fair and straight.

HMJr: Okay.

N: All right, sir.

HMJr: Thank you.

N: Good-bye.

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MEMORANDUM

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from the desk of DONALD M. NELSON

May 13, 1942

Lieutenant Stevens:

In accordance with Mr. Nelson's conversation with the Secretary, I am sending over the secret document which they discussed.

I. Thornton

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MEMORANDUM FOR THE PRESIDENT:

You asked me to bring up to date my memorandum to you of January 30, 1942, concerning William L. Batt's connection with American Bosch Corporation.

In that memorandum, a copy of which is attached, I pointed out the following:

(1) Batt has been with SKF since 1919; practically all of his income is from salary as head of that company; and under a voting trust agreement executed in 1941, he acts as trustee for the stock in SKF owned by Swedish interests, which amounts to 95% of the stock of SKF.

(2) When Mendelssohn and Co. nominally acquired the German Bosch interest in American Bosch in 1934, George Murnane of Monnet, Murnane and Co. was designated to represent Mendelssohn's interest in American Bosch. In 1938, Murnane reorganized American Bosch

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and put in as President, Donald P. Hess, who had been recommended to him by Batt. At the same time Batt was made a director of American Bosch. (Murnane stated that ~~it~~ was upon his recommendation that Batt was made President of SKF.)

(3) After the failure of Mendelssohn and Co., its interests in American Bosch were sold in May 1940 to Swedish interests dominated by the Wallenberg family, which family also owned a dominant interest in American SKF. Murnane was designated as the voting trustee of the Swedish interests in American Bosch.

The investigation of American Bosch which the Treasury Department has recently concluded reveals the following:

(1) In 1934 German Bosch, desiring to protect itself against the Nazi foreign exchange control, transferred its interests in American Bosch, British Bosch and French Bosch to Mendelssohn of Amsterdam, retaining an option to repurchase the stock. Officials of German Bosch went along to Amsterdam with the transfer of these shares to insure continued German Bosch control over these companies.

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(2) Mendelssohn, contrary to its agreement with German Bosch, pledged the stock of American Bosch with the New York Trust Co. to secure some loans. When Mendelssohn failed in the Summer of 1939, German Bosch was very fearful lest the stock in American Bosch be sold by the New York Trust Co. to competing American interests who would refuse to resell the shares to German Bosch. George Murnane and his partner Jean Monnet participated in negotiations to prevent the sale of the American Bosch stock to interests that would not be friendly to German Bosch.

(3) Negotiations took place between Chemical Bank and the German Reichsbank for the acquisition by Chemical of the American Bosch stock against payment of \$1,000,000 in cash to be put up by Chemical, together with \$2,200,000 of standstill credits acquired by Chemical on option from British banking interests. Under the proposal, Chemical was to agree to resell the American Bosch stock to German Bosch after the war. For some reason these negotiations fell through. The Reichsbank official told Kollmar, the representative of Chemical, that there had been too long a delay in concluding these negotiations and

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also that the German Government, to the embarrassment of the Reichsbank, found out that enemy-owned German standstill credits would have been used to effectuate the purchase by the Chemical.

(4) In May 1940, the shares of American Bosch which had been held by Mendelssohn were purchased by The Stockholms Enskilda Bank. Kollmar of Chemical Bank was thereafter told by the official of the Reichsbank that the stock had been sold to "Swedish friends", the Wallenbergs, on terms similar to those discussed with him, namely, on the basis of the stock being resold to German Bosch within two years after the war. Kollmar stated that if the "Reichsbank makes any deal in Sweden it is with the Wallenbergs, because I know who their confidential bankers are."

(5) It is my judgment that the Swedes in acquiring the stock in American Bosch have agreed to resell it to German Bosch after the war.

The remainder of this memorandum relates to the interrelated roles played by George Murnane, Jean Monnet and William L. Batt in the American Bosch picture.

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George Murnane

George Murnane has disclaimed knowing that there was any German interest in the American Bosch stock when that stock was held nominally by Mendelssohn. In that connection the following testimony by Arthur T. Murray, President of American Bosch through 1937, is of interest:

" . . . Dr. Mannheim~~er~~ further told me that it was his desire and intent to hold the shares in all of these companies as Agent for the German owners until such time as the Nazi Regime no longer existed, when they would be returned to the real owners.

\* \* \*

"I was talking with Mr. Murnane and I suggested that some day both of us might find ourselves being asked by the Government who really owned the Bosch stock, because I felt then that sooner or later a war between Germany and the United States and the rest of the world was inevitable. Mr. Murnane replied that he was going to see to it that he never made any inquiry as to how the Bosch shares came into the hands of Mendelssohn & Co. because he always wanted to be in a position to say honestly that so far as he knew the shares were the property of Mendelssohn & Company. This conversation took place some time during 1936 or 1937.

\* \* \*

"Stuttgart wanted to be very certain that there wasn't anything going through the mails that the Nazi Regime might get ahold of to indicate that they were the real owners of United American Bosch shares."

---

\* Dr. Mannheim~~er~~ was the head of Mendelssohn & Co. and his suicide in August, 1939 led to the liquidation of Mendelssohn & Co.

When Hess was being considered in January 1938 for the Presidency of American Bosch, he wrote a letter to Batt, a copy of which is attached, in which he stated in part as follows:

"Dear Bill:-

"Just returned to Columbus yesterday so this is the first chance I have had to tell you that Mr. Murnane is in my opinion all that you stated and was most willing to give me all necessary data re United American Bosch. While this statement is somewhat premature, I am satisfied that he and I could get along in a most satisfactory manner. The general setup is exactly as you described it with control (VCS) in Mendelssohn & Co., Rotterdam--which means German Bosch and Murnane acts for them. He has apparently as much authority as could be expected under such circumstances."

The foregoing would clearly indicate that Hess understood from Murnane as well as Batt that Mendelssohn was acting for Bosch.

In 1939 Murnane was in communication with Rassebach, who was an official of German Bosch. They were discussing National City Bank's effort to acquire the shares in American Bosch in exchange for blocked German assets owned by National City. Murnane pointed out that since National City was prohibited from retaining common

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stock even though acquired in settlement of debts, National City would be compelled within a reasonable period to sell the shares of American Bosch and that there would then be a repetition of the existing situation. By this Murnane meant that the National City Bank, like the New York Trust Co., might sell the shares of American Bosch to interests unacceptable to German Bosch.

Murnane has said that in response to a question he asked Marcus Wallenberg during a visit to this country in the Fall of 1940, Wallenberg stated that Swedish interests alone owned the shares in American Bosch transferred from Mendelssohn, and therefore, Murnane believed that there was no German interest in American Bosch. At the same time Murnane stated that he believed that where money matters were concerned the Wallenbergs were the coldest-blooded people he had ever met.

When Marcus Wallenberg was in this country in the Fall of 1940, he was making very substantial purchases of German municipal and industrial bonds owned by Americans at prices from 20 to 25 cents on the dollar. Wallenberg

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was making these purchases with funds transferred to the accounts of the Stockholms Enskilda Bank from the accounts of the German Gold Discount Bank. Wallenberg admittedly was acting for the benefit of German authorities in making these purchases. These activities by Wallenberg were widely known in this country and must have been known by Hermann.

It is also interesting to observe that Harcus Wallenberg admitted to an official of the Treasury in the Fall of 1940 that Sweden had been negotiating with the Germans in order to protect itself from a German invasion.

It is my belief that after the German invasion of Norway, German and Swedish financial and industrial interests drew closer together. Swedish interests were used by the Germans to hold title to German owned property in the United States during the period of the war and Swedish interests were also used by the Germans to engage in other financial transactions here and elsewhere for the benefit of Germany. In exchange therefor the Wallenbergs and other Swedish interests obtained protection for their property holdings in Germany and German occupied territories. Needless to say, Germany also held the Swedish properties as a hostage to compel Swedish interests to act on behalf of Germany.

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Jean Monnet

I called in Jean Monnet, who is the partner of George Murnane, who shares in Murnane's earnings as Chairman of the Board of American Bosch and who is at present a member of the British Supply Council. I told him that our investigation of American Bosch indicated that German Bosch retained an interest in the stock of American Bosch even though the stock had been transferred first to Mendelssohn and thereafter to the Swedish interests.

Monnet said that he did not believe that the Germans retained any control over the shares in Swedish hands and that if George Murnane was aware of any such tie-up he would have made such information known to Monnet. However, Monnet said he would question Murnane about the situation and report back.

At a second conference which I had with Monnet a couple of days later, Monnet said that he had talked the matter over with Murnane, that Murnane had corroborated his impression that the sale from Mendelssohn to the Swedish interests was without any strings whatsoever in favor of the Germans.

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I was not satisfied that Monnet was telling all that he knew. Monnet unquestionably knew all of the aspects of the Bosch situation. On August 17, 1939, a telegram was sent to Hess, the President of American Bosch, by Dr. Otto Fischer, one of the watch-dogs of German Bosch who worked out of the Mendelssohn's office. In that telegram Fischer indicated that thanks to urgent representations by Mendelssohns and Murnane, the investment in American Bosch had been kept intact and that it looked as though desirable interests were going to be able to raise the amount required for release of the American Bosch shares which were held as collateral by the New York Trust Co. Dr. Otto Fischer then stated:

"I am going to see Mr. Monnet tomorrow in connection with this project."

In a memorandum in the files of the New York Trust Co., signed by C. E. Hunter, a Vice President, he said that Murnane had told him on August 21, 1939, that Monnet had gone to Amsterdam to investigate the

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situation respecting Mendelssohn and the American Bosch shares. Monnet's report is stated in substance to have included the following:

"Third parties have rights in those shares, this right consisting of privilege retained by Robt. Bosch G.m.b.H. to meet any potential buyer's price within 30 days of the bid.

"A group in Amsterdam representing Stuttgart--very responsible people, are working feverishly to present a proposition to us. They are fully able to buy all these shares we hold."

Monnet also told me that up until the latter part of 1938 he was a believer in rapprochement between France and Germany.

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William L. Batt

I had a talk with Batt last Tuesday. I told him I believed that German Bosch had retained an interest in American Boscheven though the shares were owned first by Mendelssohn and later by the Swedes. Batt stated that he did not know that German Bosch continued to have such an interest while the shares were in Mendelssohn's name, but that if the Treasury had come to that conclusion, he would not question it.

During my talk I showed Batt a copy of the letter that Hess had written to him in January 1938 in which he said with respect to American Bosch:

"The general setup is exactly as you described it with control 70% in Mendelssohn & Co., Rotterdam - which means German Bosch and Murmans acts for them. He has apparently as much authority as could be expected under such circumstances."

I also recalled to Batt that in his letter of reply to Hess, he had not denied the German Bosch interest in American Bosch.

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Batt said that he had never told Hess that he believed the Mendelssohns were acting for the Germans and this part of the letter was Hess' personal conjecture.

I asked Batt if he would have accepted membership on the Board of Directors of American Bosch in 1938 had he known at that time that the Germans retained an interest in the Dutch-held American Bosch shares. He replied that he would have accepted the directorship at that time even if he had been aware that the Germans continued to dominate the affairs of the company. Batt then pointed out that he always believed there was a difference between German industrialists and the Nazi party and that he had always entertained the highest admiration and affection for German industrialists.

I then asked him if he believed that the Swedes were holding the shares in American Bosch for the Germans in consideration of an agreement on the part of the Germans to protect the Wallenbergs and other Swedish interests in German SKF. Batt denied that such an agreement existed, stating flatly that he believed the sale from Mendelssohn to the Encklida Bank was without any reservations and that such an inference had never even entered his mind. I then asked

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him if it was not possible for such an arrangement to exist without his knowing about it, and he said it was possible although he did not believe it. In response to another question, Batt stated that so far as he knew there had been no interference by Germany with SKF properties in German-occupied Europe, and he assumed that these properties were being used to assist Germany in its war effort.

He then asked me what reason I had to infer that the transfer of the Kandelsohn shares to the Eschilda Bank included an agreement to resell to German Bosch after the war. I told him of the information which had come to the Treasury's attention, particularly the negotiations and discussions between the Chemical Bank and the Reichsbank. Notwithstanding that, Batt did not think it was conceivable that the Wallenbergs could be acting on behalf of the Germans.

I then told Batt that we had information to the effect that during the Fall of 1940 Marcus Wallenberg had come to the United States for the purpose of purchasing for the Reichsbank German municipal and industrial bonds at a discount and had told certain people that he had a free hand in the purchase of these securities.

Batt confirmed that we had previously been told by Murane, namely, that the Wallenbergs were hard and cold in matters of money, but that he had the highest regard and affection for them.



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January 30, 1942

MEMORANDUM FOR THE PRESIDENT:

You have asked me for information concerning William L. Batt's connection with American Bosch Corporation.

1. In order to have a clearer picture it is necessary to mention briefly Batt's connection with SKF. Batt has been associated with American SKF and its predecessors since 1919. He was general manager from 1919 to 1923, when he became president, which office he still holds. His salary as president has ranged from \$26,000 in 1935 to \$60,000 in 1940. He customarily files a joint return. He and his wife have no significant income other than his salary from American SKF Corporation.

On January 1, 1939, Swedish SKF owned 76 percent of the outstanding stock of American SKF; certain other Swedish interests owned approximately 18 percent. These shares were transferred to Batt under voting trust agreements early in 1941. Batt himself owns a trifling amount of shares in American SKF (65 shares).

2. In 1938 Batt became a director of American Bosch Corporation at a salary of \$2000 a year. The records of the company and the transfer agent do not reveal that he has ever owned any stock in American Bosch. He resigned as director of American Bosch on March 5, 1941.

The majority of the stock of American Bosch was re-acquired in 1931 by the German Bosch Company. In 1934 Mendelssohn & Co. nominally acquired the German Bosch interest in American Bosch. Shortly thereafter, George Murnane became director of American Bosch and represented Mendelssohn's interest in American Bosch. George Murnane is at present a member of the firm of Monnet, Murnane & Co. and formerly was a partner of Lee Higginson where he actively handled the Kreuger and Toll matters. Murnane's partner, Jean Monnet, formerly was chairman of the British French economic council, and is now a member of the British Supply Council. Murnane became chairman of the board of American Bosch in June 1937 and in 1938 effected a reorganization of the company. The financial reorganization left the stock in Mendelssohn & Co. and the managerial reorganization resulted in Donald P. Hess replacing Arthur T. Murray as president. At the same time Batt was made a director of American Bosch.

When Fritz Mannheimer, the head of Mendelssohn & Co. committed suicide in August 1939, Mendelssohn & Co. failed

and was liquidated. In May 1940, the Mendelssohn interests in American Bosch were sold to the Stockholm Enskilda Bank which is owned by the Wallenberg family. Murnane was then designated as the voting trustee of the Swedish interests in American Bosch.

At the ~~present~~ present time, therefore, the Swedish interests in American SKF are represented by Batt, as voting trustee, and the so-called Swedish interests in American Bosch are represented by Murnane, as voting trustee.

\* \* \* \* \*

3. In the course of our investigation of the personnel and records of American Bosch, which we started last Saturday, we have run across information which suggests that arrangements may have been made whereby the Germans would protect SKF holdings in German-occupied countries in exchange for efforts by the Wallenbergs to protect the German interests in American Bosch. Under such an arrangement the Wallenbergs would hold the Swedish interests in American Bosch until the end of the war when it would resell such interests to the Germans.

Murnane reported to one of our Treasury investigators that it was upon his recommendation that Batt was made president of SKF and that Hess who succeeded Murray in 1938 as president of American Bosch was suggested by Batt.

It has also been reported from another source that during the liquidation of Mendelssohn & Co. (after the outbreak of war) English interests were asked to buy the Mendelssohn-held

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shares in American Bosch with the understanding that at the end of the war the control would be resold at a profit to German interests; but the English exchange authorities refused to permit the transaction. Thereafter the Mendelssohn interests in American Bosch were sold to the present Swedish holders.

In view of the fact that our investigation of American Bosch has just begun we can not warrant the accuracy of the comments contained in section 3 of this memorandum.

(Signed) H. Morgenthau, Jr.

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P  
Y  
**DONALD P. HESS**

Columbus, Ohio  
January 8, 1938

Mr. L. Batt,  
SKF Industries Co.,  
Philadelphia, Pa.

Dear Bill:

Just returned to Columbus yesterday so this is the first chance I have had to tell you that Mr. Murnane is in my opinion, all that you stated and was most willing to give me all necessary data re United American Bosch. While this statement is somewhat premature, I am satisfied that he and I could get along in a most satisfactory manner. The general setup is exactly as you described it with control (70%) in Mendelsohn & Co., Rotterdam - which means German Bosch and Murnane acts for them. He has apparently, as much authority as could be expected under such circumstances.

From the standpoint of operations, i. e., manufacturing and merchandizing, it looks good to me with real possibilities even in view of a very erratic performance over the past seven years. The financial picture is not good - which is probably to be expected in view of past earnings, or rather lack of earnings, and it is giving me a good deal of concern. In analyzing the last monthly statement it indicates current assets and liabilities about balance with a small amount of cash on hand. In this I am considering all notes payable as current although the statement does not show as such do (due?) to certain arrangements as to payments, etc. This year should show a small profit, but even this is questionable as present inventories look high to me.

Mr. Murnane told me that the bankers are willing to convert the notes into stock and he has additional funds to put into the company to help the cash position. Summarizing the whole thing Bill, I am much inclined to take it on, but the financial setup bothers me, and I want to give it considerable thought. Hope to give Mr. Murnane something definite within the next two weeks. Incidentally if you hear anything from him as to his feelings in my regard would greatly appreciate your so advising me.

Sincerely yours,

/s/

Donald P. Hess

DPH-V

May 13, 1942  
5:34 p.m.

HMJr: Hello.

Operator: Mr. Hetzel has gone for the day.

HMJr: Well, you can leave - you can leave word that I called. See if Mr. Carey is in, will you please?

Operator: All right.

HMJr: See if Mr. Carey is in.

Operator: Right.

May 13, 1942  
5:36 p.m.

HMJr: Hello.

Operator: Mr. Carey.

HMJr: Hello.

Operator: Mr. Carey.

HMJr: Hello.

James Carey: Hello. How are you?

HMJr: I'm fine.

C: Good.

HMJr: Look, Mr. Carey, I got a request from Ralph Hetzel and Mr. Haywood to see me personally about - to re-open a case in regard to a man called Hinckley, who we let out of the Treasury, you see.

C: Yes, sir.

HMJr: Now, I've reviewed the whole case myself, and

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I'm satisfied that the man should have been permitted to go. See?

C: Yes, sir.

HMJr: I haven't got the time to see these people, see?

C: Yes, sir.

HMJr: If, on the other hand, that Mr. Murray wants me to go into it personally, I will; but I'm not going to do it unless Mr. Murray asks me to.

C: Uh huh.

HMJr: Because there's been a half a dozen people in the Treasury who I've got confidence in, including myself, who have reviewed the case. Now, Mr. Haywood, or the people that came here, said if I wouldn't reinstate the man, they'd go to the President. Now, for no other reason rather than not have them bother the President, I don't want them to bother him, and, frankly, if I hadn't read the whole thing myself, I would say, "Well, I'm not familiar with it," but I am. You see?

C: Uh huh. Well, now, here was the part I played in this.

HMJr: Yeah.

C: I was called for an opinion on it.

HMJr: Yeah.

C: And I told them, well, I wouldn't hire the fellow.

HMJr: Yeah.

C: I certainly wouldn't recommend him.

HMJr: You did.

C: Yes, sir, and it was a very frank statement that I made.

HMJr: Yes.

C: However, someone in the Treasury Department didn't use very much tact when they wrote a letter to Mr. Haywood, saying that one of the high officials of the C.I.O. and the C.I.O. office said that the man should be fired.

HMJr: No.

C: You see?

HMJr: Yeah.

C: And there was only one high official of the C.I.O. and in the C.I.O. office, you see, and he happens to be Mr. Murray.

HMJr: Oh, yes.

C: And then Mr. Haywood had an opportunity to send a letter saying that we'd like to know the name of this high official.

HMJr: Yes.

C: I don't know whether they gave him the name. I don't think they did, but I was giving them an opinion.

HMJr: Well, do you know who sent the letter from the Treasury?

C: I - offhand I don't know.

HMJr: I'll find out.

C: Well, that's not important, except that it would prevent, you know, giving a real opinion on a question like that on the basis of advice, do you see.

HMJr: Well, what I was calling - unless it puts you in an embarrassing position.....

C: No, I'm in it. It doesn't at all, and I.....

HMJr: If you'd simply say to Mr. Hetzel - I'd say,

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"Unless Mr. Philip Murray personally asks me to go into this thing, I'm not going to do it."

C: Uh huh.

HMJr: See.

C: Suppose I talk to Mr. Murray about it.

HMJr: Will you?

C: I'll do that.

HMJr: Because I read the thing very, very carefully, and I don't think Haywood has a place in the Treasury.

C: Hinckley.

HMJr: I mean Hinckley.

C: Uh huh.

HMJr: Hinckley.

C: I don't either.

HMJr: See?

C: No. Of course, the opinion I gave was from long experience and long association with the fellow.

HMJr: Right.

C: And I certainly - I was asked if I recommended him. I took exception to it, you know, that even a suggestion was made that I recommended him. Then I was told that, well, they couldn't understand the position of the C.I.O., that the C.I.O. wouldn't cooperate in the Defense Bonds program unless Hinckley was put on, reinstated.

HMJr: Yeah.

C: I said, "The C.I.O. is not taking a position of blackmailing the Treasury Department."

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HMJr: Yeah.

C: And they're separate issues, and absolutely separate issues. Then they said that the man was discriminated against for his union activity, and I said, "I've known the fellow a long time, and he hasn't had any union activity."

HMJr: Yeah.

C: He had Youth Congress activity.

HMJr: That's right.

C: Well, I think you ought to stand on your position.

HMJr: What's that?

C: I think you should stand on your position.

HMJr: Okay. If Mr. Murray says to me, "Morgenthau, I'd like you to see these people; I'm not satisfied." If Philip Murray says he's not satisfied, I'll see them, but I'm not going to do it unless Philip Murray asks me to.

C: I think it's a fine position.

HMJr: Is that all right?

C: That's all right.

HMJr: Okay.

C: Righto.

HMJr: Thank you.

May 13, 1942  
6:03 p.m.

HMJr: Yes.

Operator: Go ahead.

HMJr: Hello.

James B. Carey: Hello, Mr. Secretary.

HMJr: Go ahead.

C: Hello.

HMJr: Yeah. Morgenthau.

C: Oh, yes. This is Jim Carey.

HMJr: Yes.

C: Sorry to call you this late. I talked to Mr. Murray.

HMJr: Yes.

C: He's in town now at the Carlton Hotel, but he's leaving for dinner.

HMJr: Yeah.

C: And he told me that the Secretary should do whatever he thought best in this, and he's not going to meddle into it.

HMJr: No.

C: And I told him how I felt about the situation, and he completely agreed.

HMJr: Well, I just think I'm going to tell them that the matter is closed.

C: Yes, and I'll tell them, too.

HMJr: I'm just going to say, "The issue is closed."

C: That's right.

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HMJr: And I won't bring anybody in.

C: Yeah, I think that will be a good idea; and in the meantime, I'll tell them.

HMJr: Yeah.

C: I mean I'll tell both Haywood and Hetzel.

HMJr: Yeah. Well, Hetzel - I tried to get him before I called you, you see.

C: I wouldn't do anything on that score.

HMJr: No, I'm just going to send word to them that I've gone into the matter thoroughly myself, and the matter is closed.

C: That's right, and that's the position that I'll take and Mr. Murray will take.

HMJr: Good. And I'm not going to bring you or Murray in.

C: Well, I have no objection.

HMJr: There's no - it isn't necessary.

C: Uh huh.

HMJr: It's not necessary. I'll simply say, "It's closed."

C: Yes, and I think that's the right thing.

HMJr: Okay.

C: Okay, and thanks a lot.

HMJr: Thank you.

May 13, 1942

My dear Grace:

I am sending you herewith formal letter from Secretary Stimson to the President. It is important to get these soldiers into decent quarters for the following reasons:

1. The Army Medical Officer has declared the space presently assigned as unhealthy because of poor ventilation in sleeping quarters, and unsanitary because of the location of the mess hall in former coal bunkers in the Treasury yard.
2. The Commanding Officers state that, for tactical reasons, it is essential that these troops be assembled at the most strategical point (Sherman Square).
3. It is planned to build around the Sherman statue without disturbing the statue and only two small trees will have to be relocated.

As far as I am concerned the soldiers can stay in the Treasury as long as they want to, but it seems inhuman, under Washington summer conditions, to leave them living in the cellar of the Treasury with big steam pipes running through their quarters.

I would greatly appreciate if you could bring this to the President's attention, and if he agrees have him issue the necessary orders to the Army to proceed with the construction of necessary quarters, plans of which you will find enclosed herewith.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Miss Grace Tully,  
The White House.

cc - Secretary Stimson

Delivered by S. S. Agent 5:40 p.m.

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THE WHITE HOUSE  
WASHINGTON

May 11, 1942.

MEMORANDUM FOR THE  
SECRETARY OF THE TREASURY

Please speak to me about  
this.

F.D.R.

WAR DEPARTMENT  
WASHINGTON

MAY 9 1942

The President,

The White House.

Dear Mr. President:

It has been requested by the Secretary of the Treasury that the troops, now guarding the White House and the Treasury Building, be removed from the unsatisfactory quarters which they now occupy in the sub-basement of the Treasury Building. It is desired to construct a building to house these troops on a site which will be readily accessible, under any conditions, to the buildings which they are assigned to guard.

A site has been selected on Sherman Square, directly south of the Treasury Building. It is planned to construct a building there in a U-shape around the statue, in such a manner that only two of the existing trees will have to be relocated. The architecture will be such that it will harmonize with the temporary office buildings now being constructed throughout Washington. This site has the approval of the Secretary of the Treasury.

As this is the <sup>most suitable</sup> ~~best~~ site that will enable the troops to perform their military mission of protecting the White House and the United States Treasury, your approval of its use for this purpose is requested.

Respectfully yours,

*Henry L. Stimson*

Secretary of War ✓

May 12, 1942.

Mr. W. H. Thompson

Mr. Larson

The following information has been secured from the Commanding Officers of the 71st Coast Artillery (AA) and the 703rd Military Police:

COAST ARTILLERY

Colonel Edward W. Timberlake stated that he requires quarters for 175 enlisted personnel and 5 officers. At the present, he has men quartered as follows:

26	Senate Office Building
24	House Office Building
20	Old House Office Laboratory Building
24	4th Floor, Main Treasury Building
9	Sub-basement, Main Treasury Building
21	State Department Building
21	Commerce Building
21	Washington Building
<u>14</u>	Anticipated increase in personnel
180	Total

Colonel Timberlake intends to move all the men from the above buildings and quarter them in the new barracks for the purpose of guarding the Treasury and White House. At present the Capitol, the White House, and Treasury are inadequately guarded. For sanitary and tactical reasons, the Sherman Square site is more suitable for the barracks.

The Medical Officer of Fort Myer stated that the mess hall used by 71st Coast Artillery (AA) is unsanitary due to the fact that it is in the coal bunkers in the Treasury yard and its underground location may cause illness among the men.

MILITARY POLICE

Major Martin A. Fennell stated that he requires quarters for 185 enlisted personnel and 6 officers. At the present time, he has 66 men quartered in the Sub-basement of the Main Treasury. Of this number 40 soldiers are quartered in one room, which has only one window. Many of the pipes for the various utilities supplying the building are exposed in this area, such as steam heat, hot water, electrical conduits, etc.

The meals are cooked at Fort Myer and conveyed to the Treasury by trucks, and reach their destination cold and must be reheated before being served.

In case of emergency, the force must be doubled to adequately protect the White House and Treasury, which requires 20 - 25 minutes in transit between Fort Myer and the Treasury.

Summarizing: Of the present contingent of 371 officers and enlisted men assigned to the protection of the buildings listed, the Treasury building supplies quarters for but 99. It has been stressed by the Commanding Officers that, for tactical reasons, it is essential that the full complement of officers and men on this assignment be quartered in one central location within immediate proximity to the buildings under their protection. The matter of sanitation and ventilation are, in themselves, extremely important.

Major Ashbridge, U. S. Army Engineers, has a directive to erect the barracks and is only awaiting approval of the site.

Attached hereto is blue print prepared by the U. S. Army Engineers showing the proposed buildings.

TREASURY DEPARTMENT

135

INTER OFFICE COMMUNICATION

DATE May 13, 1942

TO Secretary Morgenthau  
FROM Mr. Thompson

A survey of Treasury personnel for the months of February and March last indicates that out of 4,335 appointments, 2,684, or 62 per cent, were women and 1,651, or 38 per cent, men. Most of the appointments were as clerks, stenographers, typists and machine operators. In the higher brackets, however, four women economic analysts were appointed, one in Monetary Research and three in Research and Statistics. Seventeen women were appointed in Foreign Funds and War Savings in various grades of commercial, advertising, and defense securities promotion specialists. Four women were appointed as accountants and auditors in Internal Revenue.

*Thompson*

## EXECUTIVE OFFICE OF THE PRESIDENT

Bureau of the Budget

Washington, D. C.

May 13, 1942

My dear Mr. Secretary:

With reference to your letter of April 30, 1942 and Budget Circular No. 355, you are advised that the Division of Research and Statistics has been transferred from Class 5 to Class 3, effective this date.

Very truly yours,

(Signed) Wayne Coy

Assistant Director.

The Honorable,

The Secretary of the Treasury.

APR 30 1942

The Director,

The Bureau of the Budget.

Sirs:

With further reference to the priority classifications established by Budget Circular No. 368, and the exchange of correspondence on this subject, I cannot avoid the conclusion that the Bureau of the Budget has improperly appraised this Department's operations in their relation to the war program. At the same time I appreciate that matters of this character cannot be worked out to the entire satisfaction of all concerned and am willing to operate under the Budget Bureau's plan until such time as it may become evident that definite impairment to the work of the Treasury Department will result, when I shall renew the subject with you.

I should like now, however, to bring to your attention what impresses me as an inconsistent decision respecting the research work of my office. Under the original classification the Division of Research and Statistics was placed in Class 5, and subsequently it is understood that the Division of Tax Research and the Division of Monetary Research were placed in Class 3. All three of these research units operate under my direct supervision on work related to the War effort and there is no basis for classifying them in different priority groups. They should, in my opinion, all be in the same class as that given to the office of the Secretary in matters of general administration, which is in Class 3. It will be appreciated if you will at your earliest convenience correct this situation.

Very truly yours,

(Signed) R. Worsanburn, Jr.

Secretary of the Treasury.

L. C. M. M.C.

*File to Sherman*

CMB:WJjs

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE MAY 13 1942

TO Mr. Thompson

FROM Mr. Hays

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of February 1942.

TREASURY DEPARTMENT

MAY 14 1942

W. H. THOMPSON  
OFFICE

## DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under  
Way, and the Names of Persons Working on Each,  
for the Month of February 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

## I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on February 27. Copies were given to Under Secretary Bell and to Mr. Morris. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Foy, Mr. Barnett, Mr. Rosen

This review contained, in addition to analysis of the current situation, the following special studies:

- (a) The new issue; open-market operations in the medium maturity sector. - Mr. Foy
  - (b) Changing value of the partial tax-exemption privilege. - Mr. Barnett
2. A memorandum was prepared, and was transmitted to the Secretary on February 6, containing recommendations with respect to the February financing. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Foy, Mr. Conrad, Mr. Rosen, Mr. Robbins
  3. A maturity calendar was prepared as of February 1, for each issue of direct and guaranteed bonds and notes of the United States. The calendar was transmitted to the Secretary on February 6. - Miss Lagos

4. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table was prepared summarizing this information. Similar comparative information for earlier periods was prepared in a weekly table. A chart for each issue was kept up to date showing daily price and yield figures together with comparative monthly data since 1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Moody, Miss McCoy, Mr. Kroll
5. Preparation of reports regarding purchases in the United States by the British Empire has been discontinued, in accordance with instructions from the Secretary, and the work of closing out the project has been completed.
6. Preparation of reports regarding purchases in the United States by the Netherlands Purchasing Commission, and by Lindeteves, Inc. has been discontinued, in accordance with instructions from the Secretary, and the work of closing out the project has been completed.
7. In response to a request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements were made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy, Mrs. Barnes, Miss Westerman

Supervision was given in the preparation by the Division of Loans and Currency of 100 tables, showing the information as of January 31, received from 7,000 banks and insurance companies.

Special tabulations were prepared, and were transmitted on February 5, to the Federal Reserve Banks of New York and Philadelphia, covering ownership in the respective districts, as of December 31.

A tabulation was prepared, and was transmitted on February 5, to the Board of Governors of the Federal Reserve System showing, by classes of banks and by issues, the amount of Government securities owned on December 31, by the institutions covered in the survey.

A summary was prepared of the data received as of December 31, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for February.

New letters were sent out to the banks and insurance companies on February 26, requesting comparable data as of February 28.

8. At the request of the Secretary on May 12, 1941, arrangements were made to prepare current statistical reports on the sales of United States Defense savings bonds, series E, F, and G, and Defense Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during February were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton, Mr. Kroll, Miss Wood, Mr. D. J. Leahy, Mrs. Grossman
- (a) Daily tables were prepared, showing the dollar volume, of savings bonds, series E, F, and G, sold by Post Offices and by banks, with cumulative totals.
  - (b) Daily tables were prepared, containing a comparative statement of sales of bonds, series E, F, and G, in the three latest months, sold by Post Offices and by banks, with cumulative totals. The dollar volume was shown, together with the absolute and percentage changes in the latest month from the preceding month.
  - (c) A table was prepared on February 2, showing sales of savings bonds, series F, G, and E, by Post Offices and by banks, in dollar volume, in each month from May through January.

- (d) Supervision was given in the preparation by the Division of Loans and Currency of a report consisting of 177 pages, completed on February 28, showing sales of savings bonds, series E, for the month of January, in dollar volume, by Federal Reserve districts, by States, by cities, and by counties, classified by sales agent and denomination.
- (e) A table was prepared on February 2, showing sales of savings bonds, series E, in dollar volume, by States, from May through July, and in each month from August through December.
- (f) Supervision was given the Division of Loans and Currency in the preparation of a table completed on February 7, showing per capita sales of savings bonds, series E, from May through December, by States.
- (g) Supervision was given the Division of Loans and Currency in the preparation of a table completed on February 12, showing total sales in dollar volume of Defense Postal savings stamps, by States, from May through July, and in each month from August through January.
- (h) A table was prepared on February 13, showing estimated total value of Defense Postal savings stamps, and the number of units sold by denomination, in each month from May through January.
- (i) At the request of Mr. Graves on February 10, for the tabulation of pledges for the purchase of Defense savings bonds, series E, and Defense Postal savings stamps in Oregon, a statistical procedure has been set up for preparation by the Division of Loans and Currency, and the tabulation is in progress.
9. In further response to the request of the Secretary on December 28, daily tables were prepared from data wired by the Federal Reserve Banks, showing the supply of savings bonds, series E, on hand, unfilled requests by dates, by denomination, and by Federal Reserve districts;

total inventory, production, and sales. The tables prepared in February were transmitted to the Secretary. Copies were given to Under Secretary Bell, Mr. Graves, Mr. Swope, Mr. Broughton, and Mr. Hall. - Mr. Tickton, Mr. Mayo, Mr. Kelenson

10. At the request of Mr. Graves, estimates are prepared of sales of Defense savings bonds, series E, as a basis for determining the number of bonds to be printed. - Mr. Reagh, Mr. Brown
  - (a) An estimate was prepared, and was transmitted to Mr. Graves in a memorandum on February 3 of sales, by denomination, during February.
  - (b) In reference to a memorandum from Mr. Swope dated February 24, an estimate is being prepared of sales during March.
11. In further response to the request of the Secretary on December 31, weekly memoranda and tables were prepared from data wired by the Federal Reserve Banks, showing the number of agents qualified to issue series E, savings bonds, by type, Federal Reserve district, and by date. The reports were prepared, and were transmitted on February 3, 10, 17, and 24 to the Secretary. Copies were transmitted to Under Secretary Bell, Mr. Graves, Mr. Mills, and Mr. Batchelder. - Mr. Tickton, Mr. Mayo, Mr. Kelenson
12. In further response to the request of the Secretary on December 15, for information on the progress of the payroll savings plan for defense savings bonds, series E, the following projects were completed. - Mr. Haas, Mr. Tickton, Mr. Keats, Mrs. Barnes, Miss Westerman, Mr. D. J. Leahy
  - (a) Supervision was given the Division of Loans and Currency in the preparation of a memorandum and table from reports direct from 1,500 large companies participating in the payroll savings plan during December. The table summarized the companies classified by size group, by degree of employee participation, and payrolls. The tabulation was prepared, and was transmitted to the Secretary on February 9. A copy was given to Mr. Graves. - Mr. Tickton, Mrs. Barnes, Miss Westerman

- (b) Supervision was given the Division of Loans and Currency in the preparation of a list of firms, showing for each the amount of bond sales under payroll savings plans during December. The list was completed on February 10. - Mr. Tickton
- (c) Weekly tables were prepared, showing the number of organizations with payroll savings plans, Government and private, classified by size, type, and State, together with the number of employees eligible to participate. Tables were prepared as of January 31, February 7, 14, and 21, and were transmitted on February 6, 13, 20, and 27, according to instructions by the Secretary. - Mr. Tickton, Mr. Keats
- (d) A list was prepared from data received from the State Administrators of newspapers and other publications participating in the payroll savings plan, together with the number of employees as of January 24. The list was transmitted to Mr. Graves for the Secretary on February 3. - Mr. Tickton, Mr. D. J. Leahy
13. At the request of Mr. Graves on February 12, a list was prepared, and was transmitted to him on February 17, showing as of February 7, corporations participating in the payroll savings plan, and having 5,000 employees or more, with the number of employees in each, classified by Federal Reserve districts and States. - Mr. Tickton, Mr. Keats
14. A table was prepared, summarizing sales from August through January, of Treasury notes, Tax Series A and Tax Series B, in par amounts, by individuals and by corporations. The table was transmitted to the Secretary on February 10, and copies were given to Under Secretary Bell, to Mr. Buffington, and to Mr. Kilby. - Mr. Tickton, Mr. Mayo, Mr. Kelenson
15. A table was prepared, showing sales from August through January, of Treasury notes, Tax Series A and Tax Series B, in par amounts, classified by denomination. The table was transmitted to the Secretary on February 10, and copies were given to Under Secretary Bell, to Mr. Buffington, and to Mr. Kilby. - Mr. Tickton

16. Further progress was made in the study requested by the Secretary on December 6 of the sources of funds for Government borrowing. The reports and tables prepared during February were transmitted in accordance with instructions by the Secretary. - Mr. Haas, Mr. Daggit, Mr. Lindow, Mr. Breithut, Mr. Wagner, Mr. Weintraub, Mr. Mayo, Mr. Colclough, Mr. Saunders
- (a) A revision was made on February 4, of the analytical table on the gross national product, showing the flow of goods and services to the Government and to private persons, and the application of incomes made available by that flow for Governmental and private use for fiscal 1943. - Mr. Lindow, Mr. Breithut
  - (b) The table showing estimated sources of funds to finance the budgetary deficit was revised on February 4, to include preliminary initial estimates for the fiscal year 1943.- Mr. Lindow, Mr. Breithut
  - (c) A meeting of the Fiscal Research Committee was held on February 5, in the Office of Under Secretary Bell, which was concerned mainly with discussion of the disequilibrium analysis. Notes were prepared for use by the Under Secretary in leading the meeting, and notes were prepared on February 12. - Mr. Lindow, Mr. Breithut
  - (d) Reports on conferences and correspondence with members of the Fiscal Research Committee were prepared in the period from February 11 through 24. - Mr. Lindow, Mr. Breithut
  - (e) A memorandum was prepared for the Secretary on February 10, containing a progress report on the study to outline sources of funds to finance the budgetary deficit. - Mr. Lindow, Mr. Breithut
  - (f) A correlation analysis was prepared on February 13 on national income and non-agricultural employment, 1929-41. - Mr. Lindow, Mr. Wagner
  - (g) A table and chart were prepared on February 4, showing national income on adjusted basis, 1939-43. - Mr. Mayo

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- (h) A memorandum and charts were prepared on February 25, relating to the trend of residential construction in 1940-42. - Mr. Weintraub
- (i) A memorandum was prepared on February 7, describing the operations of the Kalecki plan to control consumer expenditure in Great Britain. - Mr. Weintraub
- (j) A memorandum was prepared on February 9, comparing the Keynesian plan of compulsory savings with the Kalecki expenditure rationing plan. - Mr. Weintraub
- (k) A memorandum and tables were prepared on February 2, explaining the differences in national income figures and concepts as between those of Simon Kuznets and the Department of Commerce, 1929-38. - Mr. Weintraub
- (l) A memorandum was prepared on February 25, containing a critical analysis of certain basic theoretical problems arising from the sources of funds study. - Mr. Weintraub
- (m) A tentative analysis was prepared on February 25, of the historical trend of the estimated national product and expenditure at the market price. - Mr. Mayo
- (n) A table was prepared on February 28, showing tax revenue by type of tax and levying unit for the calendar years 1929-41. - Mr. Mayo
- (o) Memoranda and tables are being prepared reconciling national income with income payments and national income statistics with Federal budget figures. - Mr. Breithut, Mr. Mayo
- (p) Memoranda were prepared on February 23 and 25, on estimates and disposition of consumer expenditures. - Mr. Daggit
- (q) A field trip was made to Chicago to investigate certain statistical material available on consumer spending. A report of the findings is now in process. - Mr. Daggit, Mr. Lindow, Mr. Wagner
- (r) Further study was made of the curtailment in output of consumers' goods. - Mr. Weintraub

- (s) Three tables were prepared, and were completed on March 2, showing detailed estimates of consumer expenditures and incomes for 1941 and 1942. - Mr. Daggit
  - (t) Further progress has been made in the compilation of data for measuring monthly changes in consumers' cash surpluses, for use in estimating the "inflationary-gap". Preliminary charts have been drafted to show the relative effect on prices of the increase in consumer incomes and the decrease in consumer goods production, for agricultural and non-agricultural products separately. - Mr. Daggit, Mr. Colclough, Mr. Saunders
  - (u) Further progress has been made in the analysis of increases in individual incomes to determine their disposition. The objectives of the study were largely covered by the tables listed in item (s) above. Estimates of consumer expenditures are being made in their relation to current business and price trends - Mr. Daggit, Mr. Colclough, Mr. Saunders, Mr. Weintraub
17. At the request of Under Secretary Bell, agenda, memoranda, and minutes are prepared in connection with the Treasury-Federal Reserve meetings held for the purpose of discussing financing policy. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Foy, Mr. Conrad, Mr. Rosen
- (a) An analysis was prepared, and was completed on February 2, of comments by the Board of Governors and the Federal Reserve Banks on the proposal for a special security to absorb idle funds. - Mr. Rosen
  - (b) At the request of the Secretary on February 10, a memorandum was prepared, and was transmitted to him on February 17, concerning the memorandum of the Board of Governors of the Federal Reserve System on future Treasury financing policy. Copies were given to Under Secretary Bell and to Mr. Viner. - Mr. Murphy
  - (c) At the request of Under Secretary Bell on February 16, a memorandum was prepared, and was transmitted to him on February 17, containing suggestions for the open market financing program. - Mr. Murphy

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- (d) At the request of Under Secretary Bell on February 17, the memorandum described in (c) was revised, and was transmitted to him on February 19. - Mr. Murphy
  - (e) Notes are being prepared with respect to the meeting with representatives of the Federal Reserve System held on December 18. - Mr. Murphy
  - (f) At the request of Under Secretary Bell on February 20, a study is being made of a special security for short-term funds. - Mr. Murphy, Mr. Lindow, Mr. Foy, Mr. Conrad, Mr. Rosen
  - (g) At the request of Under Secretary Bell on February 20, a study is being made of a special security for long-term funds. - Mr. Murphy, Mr. Lindow, Mr. Foy
  - (h) An estimate is being made of the monthly amount of financing necessary for the remainder of the fiscal year 1942, and for the fiscal year 1943. - Mr. Murphy, Mr. Lindow, Mr. Foy
  - (i) Minutes are being prepared of the two meetings held on February 20, with representatives of the Board of Governors of the Federal Reserve System. - Mr. Foy, Mr. Lindow
18. A proposal of the RFC that the Secretary request that corporation to purchase stock in a bank was examined. - Mr. Murphy
19. In further pursuance to the request of the Secretary on July 8, four tables were prepared, and were transmitted to him on February 18, showing deliveries from August through January of airplanes, flying boats, and four-engine bombers. - Mr. Tickton
20. At the request of the Secretary on November 3, arrangements have been made to obtain certain information on the progress of the programs under Lend-Lease, the Maritime Commission, and the Army Air Corps. - Mr. Haas, Mr. Lindow, Mr. Wagner

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- (a) A chart was prepared, showing appropriations, allocations, obligations, and disbursements, under the office of Lend-Lease, through January 31. The chart was transmitted to the Secretary on February 19.
  - (b) A chart was prepared, showing appropriations, contracts awarded, and disbursements, under the Army Air Corps, through December 31. The chart was transmitted to the Secretary on February 11, and was distributed in accordance with his instructions.
  - (c) A chart is in preparation, showing appropriations, contracts awarded, and disbursements, under the Maritime Commission, through January 31.
21. At the request of the Secretary on December 6, an analysis is being made of the plant facilities for war production. - Mr. Haas, Mr. Lindow, Mr. Wagner
- (a) The progress of United States Government commitments, by type of industry, and by Government departments, through January 31, was shown in a chart completed, and transmitted to the Secretary, on February 27.
  - (b) Commitments by the United States Government, by private interests, and by the British Empire, by type of industry and contracting authority, will be shown in a monthly chart and table. This report is in preparation.
22. A table was prepared on February 9, showing commercial bank and trust company cash subscriptions to new money offerings. - Mr. Barnett, Mr. Rosen
23. At the request of Under Secretary Bell on February 11, a study was made, and a report telephoned to the Under Secretary on that date with respect to past Treasury experience in offering two or more securities with a fixed amount named for the aggregate, but not for the individual issues. - Mr. Murphy
24. At the request of the Secretary on February 11, a study was made, and was completed on February 27 of a confidential unaddressed memorandum dated October 7, on the financing program. - Mr. Murphy, Mr. Lindow, Mr. Foy

25. At the request of Under Secretary Bell on January 26, a memorandum was prepared on Mr. Peyton's plan submitted by Mr. Allan Sproul with respect to Defense savings securities. The memorandum was transmitted to the Under Secretary on February 5. - Mr. Tickton
26. At the request of Mr. Blough on December 26, a table was prepared, showing the distribution of Federal, State, and local securities, by tax-status, and by classes of holders. - Mr. Conrad, Mr. Barnett
27. A memorandum was prepared entitled "Why Banks Buy Bonds -- The Effect of Taxes", and was transmitted to the Secretary on February 19. - Mr. Murphy
28. Computations were made, and were completed on February 23, of coupon rates on a 5-year security to be sold and redeemed at par, which are necessary to produce approximately four different series of yields. - Mr. Brown, Mr. Kroll
29. At the request of Mr. Viner on February 9, a memorandum was prepared on Mr. H. Walter Hargreaves' article on "The Guaranteed Security in Federal Finance", and was transmitted to Mr. Viner on that date. - Mr. Murphy
30. At the request of Under Secretary Bell on February 16, a study was made of a proposal by Mr. H. Frazier Sheffer for the issuance of victory income certificates. The analysis was incorporated in a memorandum transmitted to the Under Secretary on February 24. A letter prepared by Mr. Bell accompanied the memorandum, which was forwarded to Mr. C. S. Bell on February 28. - Mr. Reagh, Mr. Barnett
31. At the request of Mr. Blough on February 18, a study was made of a proposal relating to the sale of Government bonds, entitled "Method of Handling Canadian Government Securities by the Canadian Government". The study was completed on February 19, and no action was taken. - Mr. Murphy
32. A table and chart on domestic bond flotations were brought up to date, and were transmitted to Mr. Morris on February 12. - Mr. Rosen, Mr. Barnett

33. At the request of Mr. Viner on January 30, two tables were prepared on deposits of insured commercial banks classified as insured and non-insured, and by type of deposit. The tables were transmitted to Mr. Viner on February 5. - Mr. Barnett
34. At the request of the Division of Tax Research on February 10, a study was made of material relating to the taxation of banks. The study was completed on February 19, and no action was taken. - Mr. Murphy
35. At the request of Mr. Kuhn on January 31, two letters from Mr. Frank Lewin proposing that life insurance companies be placed under the Federal Government, were answered by a letter to Mr. Lewin signed by Mr. Kuhn on February 9. - Mr. Reagh, Mr. Brown
36. At the request of Under Secretary Bell on February 27, data were prepared on the distribution of the Federal debt for use by the Secretary in his testimony on increasing the debt limit. A memorandum was transmitted to the Under Secretary on February 28. - Mr. Murphy
37. At the request of Under Secretary Bell on February 28, a memorandum and tables were prepared, showing the estimated distribution by classes of holders of interest-bearing securities issued or guaranteed by the United States outstanding at the end of each fiscal year 1932-41, and on December 31, 1941. These data were transmitted to the Under Secretary on February 28. - Mr. Robbins
38. At the request of Under Secretary Bell, four meetings were attended in his office between February 23 and 28, to revise a draft of the statement on the increase of the debt limitation to be made by the Secretary. - Mr. Lindow
39. At the request of Under Secretary Bell on January 26, a study was completed of H. R. 6391, "The Patman Bill", providing for the issuance of non-negotiable United States bonds to Federal Reserve Banks and terminating the authority of the Treasury to issue other interest-bearing obligations to commercial banks. The analysis was incorporated in a memorandum transmitted to the Under Secretary on February 13. - Mr. Foy

40. At the request of Mr. Tietjens on February 1, a revision was made of a letter to Senator George, Chairman, Committee on Finance, for signature of the Secretary, containing a proposed report on S. 2172, amending the Social Security Act. The letter, under cover of a memorandum to Mr. Heffelfinger, was transmitted to Mr. Bartelt on February 17. - Mr. Rosen
41. At the request of Mr. Bernard on February 9, a study was made of H. R. 6485, authorizing the direct purchase of Government obligations by Federal Reserve Banks, and regulating the manner of distribution of such banks' earnings. The bill was returned to Mr. Tietjens on February 14, with no recommendation for action. - Mr. Murphy
42. At the request of Mr. Tietjens on February 10, a memorandum to Under Secretary Bell and to Mr. Tietjens, and a letter to Representative Steagall, Chairman, Committee on Banking and Currency, for signature of the Secretary, were prepared containing an analysis of H. R. 6493, providing a moratorium on foreclosures of HOLC mortgages for the duration of the war. The memorandum with letter was forwarded to the Under Secretary on February 25. - Mr. Rosen

## II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Foy, Mr. Barnett  
Mr. Rosen
2. A study is being made of the effect of the maturity, call period, coupon, premium, and size of issue on the prices and yields of United States securities. - Mr. Conrad
3. A memorandum is being prepared on a negotiable security for continuous sale. - Mr. Murphy
4. A study is being made of developments in the reserve position of the banks. - Mr. Rosen, Mr. Barnett
5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. Three tables have been completed. - Mr. Conrad, Mr. Rosen

6. A memorandum is being prepared on the advantages and disadvantages of increasing the short-term debt. - Mr. Foy
7. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Lindow, Mr. Conrad
8. A memorandum is being prepared recommending legislation terminating miscellaneous types of tax exemption analagous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. - Mr. Foy
9. At the request of Mr. Blough on December 26, an estimate is being made of the increase in interest costs to the Federal Government, the States, and municipalities, if the tax-exempt privilege were removed from future bond issues. - Mr. Murphy, Mr. Lindow, Mr. Conrad
10. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Simmons
11. A study is being made of the market action of the various maturity classes of Government securities in relation to the type of holder. - Mr. Conrad
12. At the request of Mr. Surrey on January 1, a study is being made of the amortization of bond premium and discount. - Mr. Murphy
13. A memorandum is being prepared on Mr. Viner's proposal for a new system of allotting Treasury bills. - Mr. Murphy  
Mr. Tickton
14. A memorandum is being prepared on the desirability of conducting the war finance as it was in the last World War, by war loan drives. - Mr. Foy
15. At the request of Assistant Secretary Gaston on January 20, a review is being made of "A Memorandum on Financing the War" by Mr. Robert L. Owen. - Mr. Foy, Mr. Barnett

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16. A study is being made of the sources of funds available for borrowing by the British Government comparable to the study in progress for this country, as described in Financial Analysis, I, item 17 above. - Mr. Simmons
17. A study is being made of the post-war effects of a large volume of demand debt. - Mr. Murphy, Mr. Lindow
18. At the request of Mr. Morris on December 16, an analysis is being made of a proposed industrial loan corporation bill of 1942. - Mr. Foy
19. At the request of Under Secretary Bell on February 12, a study is being made of the proposed Public Debt Act of 1942. - Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Foy
20. At the request of Under Secretary Bell on May 31, 1940, replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125, 76th Congress, 3rd Session. - Mr. Haas, Mr. Murphy, Mr. Foy
21. At the request of Under Secretary Bell on May 24, 1941, cooperation was given in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The information is for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. A proposed reply was sent to the Under Secretary on June 18. - Mr. Murphy, Mr. Foy

#### Revenue Estimates

##### I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period February-June 1942. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher
2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in January 1942 on the daily Treasury statement basis. - Mr. Delcher

3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in January 1942, based on the collections classification. - Mr. Delcher
4. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, were prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun, Mr. Jorgensen, Mr. Kelly
  - (a) Estimates were completed, and were transmitted in a memorandum to Mr. Blough on February 3, of the revenue increase which would result if the corporation income tax and the individual normal tax each were increased by 1 percent, and the additional revenue if the increase were made applicable also to tax-exempt interest; and of the loss in revenue which would result from the exemption of interest on Government obligations, with respect to the exemption of State and local securities and Federal tax-exempt securities.
  - (b) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on February 6, of the revenue effect of restoring the privilege of filing consolidated returns for purposes of the normal and surtax under the conditions stipulated in the acts prior to 1934, on two assumptions.
  - (c) A revised estimate was prepared, and was transmitted in a memorandum to Mr. Blough on February 7, of the revenue effect of changing the excess-profits tax base and of proposed corporation normal tax and surtax schedules.
  - (d) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on February 17, of the revenue yield which would result from a specified method of gradually disallowing a deduction for interest on corporate indebtedness.
  - (e) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on February 17, of the increase in corporation surtax rate which would be necessary to secure the same increase in corporation taxes as would result from the decrease in the average earnings credit to 75 percent and the invested capital credit to 6 percent.

- (f) An estimate was prepared, and was transmitted in memoranda to Mr. Blough on February 18 and 19, of the revenue effect of proposed revision in the corporation income and excess-profits taxes as outlined in Plans I and II.
  - (g) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on February 19, of the increase in corporation surtax rates due to amendment of Plan I, referred to above, if the excess-profits tax rate were increased by 10 percentage points in each bracket instead of by 15 percentage points.
  - (h) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on February 26, of the increased revenues if the proposal to reduce individual income tax exemptions were superimposed upon a number of the other specified recommendations.
  - (i) A comparable revenue estimate to that above was prepared by specified net income classes.
  - (j) An estimate was prepared, and was transmitted by telephone on February 27, and in a memorandum to Mr. Blough on March 2, of the amount of compulsory savings which would result from a proposed plan.
  - (k) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on February 27, of the yield of a proposed corporation tax plan, with two groups of specifications.
  - (l) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on February 28, of revenue from the fifteen excise taxes recommended by the Excise Tax Committee through February 17.
5. At the request of the Division of Tax Research on February 18, in connection with the proposed revision of the revenue laws, a review was made of a memorandum containing proposed formulae for revising the tax base for insurance companies. The review was completed and the memorandum returned on February 28. - Mr. Reagh, Mr. Brown

## II. Projects or studies under way

- 1. An analysis is in preparation of each component of the September revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel

2. An analysis is in preparation of each component of the Budget estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel
3. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, are being prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun, Mr. Lusk
  - (a) An estimate is being made of the additional revenue if mutual non-life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable as stock non-life insurance companies taxable under Section 204, and the exemption under Section 101(11) were restricted to local mutual companies of the assessment type.
  - (b) Estimates are being prepared of the revenue effect of re-defining long-term capital gains and losses, substituting for the two classes, one class beginning at 18 months; on the basis of three long-term and two short-term assumptions.
  - (c) Estimates are being made for a general sales tax at several rates for three distribution levels, assuming various combinations of exemptions for food, clothing, medicine, and fuel.
  - (d) A revision is being made of the revenue estimates for the years 1926-1940 of capital gain and loss provisions applicable to individuals and fiduciaries. Corresponding estimates are being made for the year 1941.
  - (e) A detailed estimate is being made of the revenue yield of a net value added tax, assuming six different taxpayers' bases, on two tax credit assumptions.
  - (f) An estimate is being made of the revenue yield which would result if the Canadian corporate tax system were substituted for the present system in this country.

- (g) An estimate is being made of the total revenue yield and increase over the existing law which would result from the adoption of the British individual and corporate income and excess-profits tax structure.
- (h) With reference to the excess-profits estimate completed on January 17, a breakdown is being made ~~of~~ the income and tax figures before and after the proposed change in the excess-profits tax credit, by detailed industrial and size classifications of corporations.
- (i) An estimate is being made of the revenue yield of a proposed tax on radio broadcasting companies.
- (j) Estimates are being prepared of the revenue gain if the deduction for State income taxes paid were disallowed in computing Federal individual income tax liability; and the loss in revenue to the States if they all permitted the Federal individual income tax as a deduction in computing State individual income tax liability.
- (k) Estimates are being prepared of the division of the tax yield between short-term and long-term capital transactions yearly beginning 1938.
- (l) Estimates are being prepared of the revenue increase from changes in the tax base of life insurance companies and insurance companies other than life.
- (m) Estimates are being made for certain individual income tax rate schedules, by net income classes, of individual income tax yield under the present law.
- (n) Estimates are being made of the loss of revenue to the Federal Government if it abandoned to taxation by the States all individual incomes below specified levels.
- (o) Estimates are being made of yield from estate and gift taxes on the basis of four changes, and their combined effect.

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- (p) There are in preparation certain basic corporation and individual income and tax data, actual for 1940 and estimated for 1941 and 1942.
- (q) An estimate is being made of percentage depletion.
- (r) Estimates are being made of the revenue effect of the proposal for mandatory joint returns, on the basis of the present law.
- (s) With respect to the estimates listed under Revenue Estimates, as items I, 4(h) and II, 3(c), estimates are being made on the basis of eliminating earned income credit; and requiring compulsory joint returns, with certain relief accorded.
- (t) An estimate is being made of the revenue effect of a revision of a portion of the corporation tax plan, on which the estimate listed as I. 4(k) was based.
- (u) With respect to the estimates listed under Revenue Estimates as items I, 4(h), II, 3(o), and II. 3(t), estimates are being made of the revenue effect of specified changes in the surtax schedule.

Economic Conditions Related to Fiscal  
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on February 2, 9, 17, and 23. - Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler

These memoranda contained in addition to analysis of the current situation the following special study:

Movement of basic commodity prices and the percentage change for individual commodities from the average price during August 1939, from December 6, 1941, and from the previous week. (Chart in memorandum of February 16.) - Mr. Daggit, Miss Spiegel

2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the memorandum on the business situation. - Mr. Colclough, Miss Spiegel, Miss McLachlan
3. Memoranda on employment under the Work Projects Administration were prepared on February 2, 9, 16, and 23. - Miss McLachlan
4. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevraux
5. In further response to the request of Mr. Leon Henderson on July 19, copies of eight charts on commodity prices and the cost of living were transmitted to him, as indicated below. - Mr. Daggit

The movements of the NICEB cost-of-living index compared with the BLS wholesale price index of 889 commodities were shown from 1936 to date. Four charts, as of January 24, 31, and February 7 and 14, were transmitted on February 3, 10, 17, and 24, respectively.

Two charts showed the movements of the indexes of 12 food-stuffs and 16 industrial raw materials, and percentage changes for each commodity from August 1940 to current dates. These charts, as of January 30 and February 6, were transmitted February 3 and 10, respectively.

Two charts showed the movements of the indexes of 12 food-stuffs and 16 industrial raw materials, and percentage changes for each commodity, from June 1941 to the current date. The charts also showed percentage changes for each commodity from August 1939 and from December 6, 1941, to current dates. These charts, as of February 13 and 20, were transmitted on February 17 and 24, respectively.

6. In further response to the request of the Secretary on January 28, memoranda and charts were prepared on export freight movements and lighterage freight in storage and on hand for unloading in New York Harbor, as of January 30, and February 7, 13, and 20, and were transmitted to him on February 4, 12, 19, and 25, respectively. Copies were given to Mr. Kamarck in further response to his request of December 4. - Mr. Daggit
7. An analysis was completed on February 17, of the distribution of Defense savings bonds, series E, during December, in relation to payrolls, and to national income, by States. - Mr. Daggit, Mr. Colclough, Mr. Saunders.
8. A new chart was prepared for use in the first memorandum on the business situation of March, showing actual and estimated retail sales compared with salaries and wages, based on their average relationship to salaries and wages, 1935 through 1940. - Mr. Daggit, Mr. Colclough, Mr. Saunders
9. At the request of the Secretary on February 7, a table showing the Dow-Jones composite stock averages at the end of each month from January 1941 to date was prepared, and was transmitted to him on that day. - Mr. Daggit, Mr. Chevraux, Mr. Colclough, Mr. Saunders
10. At the request of Mr. Buffington on February 12, a memorandum and table on advertising expenditures were prepared, and were transmitted to him on that date. - Mr. Daggit, Mr. Chevraux, Miss Spiegel
11. A memorandum was prepared reporting a meeting held on February 13 by the Bureau of Labor Statistics to discuss the revision of the BLS cost-of-living index. - Mr. Daggit
12. At the request of Mr. Schwarz on February 2, a review was made of an article, "The Midwest Speeds Defense" by Under Secretary Bell. The article was returned to Mr. Schwarz on February 3. - Mr. Daggit, Mr. Chevraux, Mr. Colclough
13. The figures used in the chart showing prices from 1939 to date compared with 1914 and 1918 were checked against original source material. This chart was for use by the Secretary before the House Ways and Means Committee in his testimony on the proposed revision of the revenue laws. - Mr. Chevraux, Miss Spiegel

Actuarial Problems

## I. Projects or studies completed

1. At the request of Mr. Marc. Shield, Clerk of the House Appropriations Committee on February 25, an estimate was made, and was given him by telephone on February 26, of the reduction in cost to the Government if appropriations to the Civil Service Retirement Fund had been made on an actuarial basis from the effective date of the Act. - Mr. Reagh, Mr. Brown, Mr. Kroll
2. At the request of Mr. C. S. Bell on February 9, computation was made of the annuity which the Secretary would be eligible to receive under the amendment of January 24, to the Civil Service Retirement Act. The figures were given to Mr. Bell in a memorandum on that date. - Mr. Reagh, Mr. Brown, Mr. Kroll
3. At the request of Mr. McReynolds on February 11, computation was made of the annuity which the President would be eligible to receive under the amendment of January 24, to the Civil Service Retirement Act. The figures were given to Mr. McReynolds in a memorandum on that date. - Mr. Reagh, Mr. Brown, Mr. Kroll
4. The Foreign Service Retirement Law, as approved April 24, 1939, Section 26(m) provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuation at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". The State Department has requested an estimate of the appropriation required for the fiscal year 1943. On the basis of a valuation as of June 30, 1941, an estimate of the appropriation for the fiscal year 1943 has been prepared, and was submitted to the State Department in a letter signed by Under Secretary Bell on February 10. - Mr. Reagh, Mr. Brown, Mr. Kroll

## II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. Valuation plans are in process of preparation. - Mr. Reagh, Mr. Brown
2. At the request of Mr. Fisher, Chief, Retirement Division, Civil Service Commission, on January 28, the Board of Actuaries is preparing sets of factors to determine the immediate annuities of those eligible for retirement under section 1(d) and section 5(a) of the Civil Service Retirement Act, as amended on January 24. A reply to the request is being prepared by Mr. Buck, Chairman of the Board, and will be submitted to us for consideration and approval. - Mr. Reagh, Mr. Brown, Mr. Kroll
3. At the request of Dr. Falk of the Social Security Board on January 7, a review was made of a preliminary draft of the Second Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. A final draft was received from the Board on February 16 for Treasury approval. - Mr. Reagh, Mr. Brown
4. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Subcommittee on Retirement, has again become active. A report has been prepared but has not yet been submitted to the main committee. - Mr. Reagh, Mr. Brown
5. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, an actuarial quinquennial valuation is being made of the Policemen's and Firemen's Pension Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriation Act, approved July 1, 1941. The work for the valuation has been begun. - Mr. Reagh, Mrs. Grossman

6. At the request of Mr. Leon Frechtel, Assistant Director, Attorney General's Committee on Bankruptcy Administration, on February 19, estimates are being prepared of the probable cost to the Government of a retirement system for referees in bankruptcy courts to be set up under Section 6 of H. R. 4394, a bill to amend the act establishing the uniform bankruptcy system. - Mr. Reagh, Mr. Brown, Mr. Kroll

#### Other Projects or Studies

##### 1. Publications

- (a) For the February issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Barnett

All the material submitted for the February issue was reviewed and edited. - Mr. Lindow, Mr. Lynch

The following tables were revised for the February issue as follows:

1. A table showing the estimated ownership of all Government securities, as of June 30, 1937-1941, and December 1941. - Mr. Lindow, Mr. Lynch
2. The Social Security tables were revised and expanded to show greater detail on the program (including railroad unemployment and railroad retirement). - Mr. Lindow, Mr. Lynch
3. A table showing for public marketable securities issued by the United States (except Treasury bills and Federal Intermediate Credit Bank debentures), prices and yields as of February 16, and certain historical data. - Mr. Brown, Mr. Kroll
4. A table showing sales of United States Defense savings bonds since May 1, 1941, by series, months, and denominations. - Mr. Brown, Mr. Kroll

(b) For the publication Prices and Yields of Public Marketable Securities Issued by the United States Government and by Federal Agencies, computations were made and copy was prepared for the issue covering the month of January. - Mr. Brown, Mr. Kroll

2. At the request of Mr. Kuhn, a draft of a letter was prepared on February 28 for his signature, to be forwarded to Mr. MacLeish, with expressions of Treasury opinion on certain topics relating to the Committee on Publications of Statistics. On behalf of Mr. Haas, the meeting of the Committee was attended on February 11. - Mr. Lindow

3. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Foy, Miss Ziegler, and other members of the staff in appropriate fields of work.

During February 377 letters were received in the Division and 405 were handled as required.

4. Charts

Charts are prepared and continuously brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of February is attached.

Work completed in the Graphic Section, Division of  
Research and Statistics, during February 1942

Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New charts:</u>			
Total charts completed	54	19	73
Bond book charts completed	1	-	1
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	24 times	-	24(t)
All other charts brought up to date	693	26	719
<u>Miscellaneous:</u>			
Total jobs	21	9	30
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	72	49	121
Number of-			
Negatives	301	211	512
Contact prints	261	497	758
Enlargements	286	148	434
<u>Photostats:</u>			
Total jobs	196	116	312
Number of-			
Lettersize copies	6,412	5,211	11,623
All other copies	2,597	701	3,298
<u>Multilith:</u>			
Total jobs	12	4	16
Number of-			
Zinc and paper plates	152	11	163
<u>Miscellaneous:</u>			
Total jobs	12	6	18

Type of work	Jan.	Feb.	Mar.	April	May	June	Total
<b>A. Graphic:</b>							
New charts completed	61	73					
Charts brought up to date	764	719					
Bond book charts completed	2	1					
3 bond books brought up to date	26 (t)	24(t)					
Miscellaneous	19	30					
<b>B. Photographic:</b>							
<u>Photographs:</u>							
Total jobs	116	121					
Number of-							
Negatives	409	512					
Contact prints	837	758					
Enlargements	376	434					
<u>Photostats:</u>							
Total jobs	297	312					
Number of-							
Letterwise copies	9,074	11,623					
All other copies	3,400	3,298					
<u>Multilith:</u>							
Total jobs	17	16					
Number of-							
Zinc plates	144	163					
<u>Miscellaneous:</u>							
Total jobs	31	18					

May 13, 1942

For the Secretary

After a further check with our District Chief Examiner in Kansas City, Missouri, who has talked to the bankers in Oklahoma and <sup>Texas</sup> Kansas about the oil situation in the Southwest, I find

- (1) There seems to be no trouble at all about loans to oil producers in those two states.
- (2) The impression in Oklahoma is that the Texas situation is improving rather than growing worse.
- (3) The First National Bank of Tulsa, Tulsa, Oklahoma, and the First National Bank of Oklahoma City, Oklahoma, have some loans to oil producers in Texas. They have assured their borrowers that as long as they have adequate oil reserves and keep their properties up, there will be no difficulty about carrying their loans.
- (4) The bankers in Tulsa and Oklahoma City report that the oil men are much more concerned about the "percentage depletion" proposal now before Congress than they are about their loans at banks.

  
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Memorandum on 1942 Tax Proposals

A. Size of Tax Program

The March 1942 Treasury Department recommendations for increased taxes were designed to bring in \$7.6 billion more than present tax laws. These proposals were in line with President Roosevelt's Budget Message of January. Supplementary Treasury recommendations made in May increased this figure by \$1.1 billion.

In view of the estimates of the amount of money that may be available for spending in excess of goods on which to spend it, i.e., "the inflationary gap," this recommended tax program is conservative as to size and should be considered a minimum. See broadside, "Bigger Taxes Are Better Taxes," for figures indicating the general situation in this respect. One expert, A. G. Hart of Iowa State College, testifying before the House Ways and Means Committee said that this year's tax program should be at least \$12 billion.

Even with the levy of increased taxes as recommended, borrowings in the year ending June 30, 1943 may total more than \$50 billion.

B. Lower Income Tax Exemptions

1. First Treasury proposal on income tax

The first Treasury proposals included no recommendations for changes in the personal exemptions or the exemptions allowed for dependents under the personal income tax. At that time, Mr. Morgenthau minimized the dangers of greater inflation resulting from the buying of persons not already paying income taxes, and emphasized the tax burdens already carried by that group. The Treasury did however propose increased rates on the present taxpaying group to bring in \$3 billion more than at present.

2. Second Treasury Proposal

In May, after two months of consideration of new taxes by the House Ways and Means Committee and after the movement for a sales tax had gained considerable headway, the Treasury put forth recommendations for a general lowering of exemptions: for single persons from \$750 to \$600, for married persons from \$1,500 to \$1,200, and for dependents from \$400 to \$300. It is estimated that this would bring in \$1.1 billion additional revenue--\$100 million from new taxpayers and \$1 billion from those already paying. The number of new taxpayers under this proposal is estimated at 6,900,000. Mr. Leon Henderson immediately followed up this recommendation with an endorsement and suggested that the reduction in exemptions might well go further. Mr. Colin Stam, congressional tax expert, suggests the possibility of exemptions of \$1,000 for married persons and \$500 for single persons and a lowering of proposed rates on some of the present taxpaying group, so that less of the burden of lowered exemptions would fall on the middle income groups.

3. Pertinent points about lower exemptions

a) Fairer than sales tax

With the need for unprecedented amounts of revenue and with the need to curb excess buying power because of the limited supply of goods on which civilians can spend money, all groups will have to share the resulting tax burden. Middle income groups will have to pay more, small

income groups will have to pay more, everybody will have to pay more. The essential problem becomes one of sharing the burden as fairly as possible. This is the basic reason for urging lower income tax exemptions. It would be better to impose even heavier rates than those already suggested for the lowest income groups subject to an income tax under the proposed reduced exemptions, than to have a sales tax.

A sales tax allows no exemption for the first dollars of spendable income, it makes no allowance for the size of the family, and it hits hardest the groups that spend most of their incomes on goods. The movement for the sales tax has already made considerable headway. To congressmen a sales tax looks like an easier solution to heavy taxation than a broader income tax base: a sales tax doesn't appear to those affected to be as severe as an income tax at the time it is levied; also a sales tax is easier on the middle income groups than lower income tax exemptions and congressmen are very loathe to increase the burdens of the middle income groups. Congressmen need to be encouraged to avoid a sales tax until better solutions such as lower income tax exemptions have been tried.

b) Secure revenues promptly through collection at source

One of the goals of a tax program today is to draw off purchasing power promptly. This is achieved under an income tax only if tax payments are withheld at the time wages and salaries are paid. The terms "collection at source" and "withholding tax," although sometimes used as if they meant different things, apply to the same fundamental idea-- payment of all or part of the tax on income at the time the income is received instead of later. Different proposals have been made from time to time as to the rates that should apply for taxes collected by this method.

In the original 1942 tax recommendations, it was recommended that discretion be given to the Treasury to collect part of the income tax at source. In recommending a broader base for income taxes no supplementary recommendation on a withholding tax was made.

Since it is important to collect promptly as much tax revenue as possible, it seems unnecessary to give the Treasury Department discretion about collection at source. It should be mandatory to collect as much income tax revenue at source as can be arranged for. This not only helps the government, but it is easier for the small taxpayer than trying to find the cash to pay his income tax in a lump sum or in four installments.

G. Joint Income Tax Returns

1. Treasury proposal

The Treasury Department has renewed the proposal made last year that married couples be required to file joint income tax returns. The purpose of the proposal is to eliminate tax avoidance through transfers of property from husband to wife and the paying of taxes on two smaller incomes instead of one large one, and to eliminate the tax differential that favors the eight community property states where the husband-wife relationship is treated as a business partnership and income is divided with the result that lower income taxes are paid because lower rates apply to the shares than to the total income. It is estimated that closing these tax loopholes by the requirement of joint returns would produce about \$300 million in revenue.

The proposal is opposed not only by those who derive an advantage from the present system, but also from women who fear that their hard won independent legal status may be jeopardized.

2. Legal Status of Women

Mandatory joint returns would modify the principle of taxation that treats taxpayers as individuals. But in this respect women are put at no greater disadvantage than men. Furthermore, the recommendation for joint returns as made by the Treasury provides that after the total tax is computed, the tax liability of each person may be determined and the taxes paid individually.

As far as women's status before the law is concerned, there seems to be little to worry about. One woman lawyer sums it up in this fashion: "It seems impossible to conceive that any court would hold that the requirement of a joint income tax return for husband and wife would repeal any of the statutes which enable a woman, though married, to own and control her own property, convey and devise it, free from her husband's debts, own and control her own earnings, sue and be sued, etc. All of these statutes (which, it must be remembered, are state statutes), would remain in full force and effect. The only change would be that, for the purpose of federal income taxation, the husband and wife would be considered as one taxable unit."

3. The issue

The primary issue in the joint tax return question is to close tax loopholes. This is important when we are taxing everybody on an unprecedented scale. Woman's basic independent legal status would remain. If a privilege she has enjoyed in the past is taken away, so also are the privileges of many others.

However, if joint returns are adopted, it might be desirable to allow some exemption for earned income. This would take account of increased household expenses which accrue when the woman works outside the home. Some such allowance becomes increasingly important as income taxes are levied farther down the income scale. It is also important not to affect adversely the willingness of women to work outside the home by too drastic measures with respect to earned income. The Treasury has recommended a special allowance for earned income.

Other League Material on Taxes

- Bigger Taxes Are Better Taxes, 100 for 75¢
  - Trends Vol. I, Nos. 1, 4, 5
  - Taxes: 1942 and After, A Quiz
  - "Paying for the Defense Program" in Battle of Production, 10¢
- ) These are good  
background  
reading
- How Should Government Be Financed
  - Taxes and Tax Trends
- ) These are good for  
reference purposes
- Taxation Reference List, September 13, 1941
  - Supplementary Tax Bibliography, January 30, 1942

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The amount and kind of new taxes that are levied this year will depend upon what Congress is willing to do. This will depend in part upon what Congress thinks the country will accept. And this will depend upon the extent to which people understand the measures necessary to pay for the war and to prevent the disastrous consequences of inflation.

## Why Big Taxes?

The more successful we are in organizing our productive machinery and turning out military equipment to defeat the Axis, the faster we will find ourselves with more money to spend than goods on which to spend it. We will have substituted guns for refrigerators and washing machines, but we will still have money which would normally be used to buy goods that are no longer available. The better we tax ourselves, the better we will relieve this unhappy situation. Furthermore, the more willing we are to tax ourselves now, the more we will lighten the burden of debt to be carried after the war is over when incomes are likely to be smaller and fewer people are likely to have jobs.

## How Big?

The total dollar cost of the commitments we have made is so large that it means little to the layman, but it is rapidly approaching the equivalent of what *all* the American people can produce in *two years* at the rate we were working in 1941. In terms of the coming year if we perform miracles and manage to build all the guns, tanks, and planes President Roosevelt has asked for, we might find that for every \$110 of income there would be only \$50 worth of goods on which civilians could spend it. It would then become necessary to dispose of the other \$60 so that it could not be used in a senseless competition for the \$50 worth of goods.

On the basis of present laws, \$18 of this \$60 will be drawn off in federal taxes; people may be willing voluntarily to reduce their expenditures enough to put \$10 of it in defense bonds; and some of it would go for such non-inflationary purposes as life insurance and reduction of debts.

What about the remainder which might amount to almost \$30 out of every \$110 of income? The Administration has recommended that taxes be increased to take almost \$9 and that social security payments be increased so that \$2 more would be diverted to the U. S. Treasury. It is obvious that this is a conservative proposal; we would probably do well if we increased taxes even more than this.

## How Many Must Pay?

At present only about 22% of the people with incomes pay income taxes to the federal government, and that includes the two million who are paying this year who did not pay a year ago. Enlarging this group by lowering tax exemptions has always met with resistance partly because it is not a popular thing to do. Broadening the income tax base has also been opposed because the people with the smallest incomes have carried heavy burdens of indirect taxes, such as those that are hidden in the price of goods that are taxed by the federal, state, and local governments. It has been estimated that people receiving less than \$1,000 a year have been paying between 18% and 22% of their incomes in taxes, compared with about 17.5% paid by those with incomes between \$1,000 and \$5,000. This is contrary to the generally

accepted standard of ability to pay, by which those with larger incomes pay a larger share of their incomes in taxes than those with smaller incomes.

But times have changed and our tax policies must be modified to meet new conditions. To get enough revenue and to decrease buying, it will be necessary to take a considerable portion of the new tax money from families of moderate and small means. At present a married man with two dependents and a \$2,500 income pays only about \$11 in federal income taxes per year, yet well over half of the national income is received by persons earning \$2,500 or less.

### How Shall We Pay: Sales Tax or More Income Taxes?

**For Inflation Control:** Either a sales tax or increased income taxes can be devised that will check inflation by taking off sufficient purchasing power promptly. Under a sales tax the money comes in currently as goods are purchased. Under an income tax we would have to make arrangements for a faster method of collection through deductions from wages, salaries, and dividends at the time they are paid. The present method of paying income taxes—months after the close of the year in which the income was received—is too slow to be helpful in checking inflation.

**For Revenue:** Either a sales tax or increased income taxes can bring in billions of dollars but in either case stiff rates would be necessary. For example, to secure \$5 billion from a retail sales tax, we might have to pay a tax of 11¢ on every \$1 of goods we bought, excluding food.

To get \$5 billion from increased income taxes and at the same time to get it from those who have much of the money that is spent on consumer goods, we would probably have to do two things: reduce all exemptions and increase rates, especially in the lower income brackets. At present, exemptions are \$750 for a single person, \$1,500 for married persons, and \$400 for each dependent. If these were reduced, income taxes would not only be collected from additional people but more money would be collected from those who already pay.

**For Equity:** The income tax has always been considered a fairer method of taxation than a sales tax because it can be levied according to ability to pay. Under a sales tax those who spend practically all their money on merchandise carry a heavier burden than those who have a margin for savings or for expenditures beyond basic living expenses. This is true even when food is exempt, and even when we must tax as heavily as we will have to this year. An income tax works out more fairly than a sales tax, as long as there are exemptions which afford some means of protection to a basic living standard and as long as small incomes are taxed less than large incomes.

### What Will the Answer Be?

It will take courage for Congress to tax on the scale that is necessary and there will be a desire to do it as painlessly as possible. Income taxes are apt to seem more unpleasant than sales taxes to a legislative body and therefore harder to levy. This is because the effect of the income tax on the individual's total income is more direct and obvious than the effect of a sales tax, which is paid in dribbles and is associated in the mind with the value of the goods that are purchased.

We may come to the point where a sales tax must be levied in addition to increases in income taxes, but if citizens understand clearly why heavy taxes are vital and why income taxes are preferable to sales taxes and are willing to support their Congressmen on a sensible course of action, the day when a sales tax has to be used can be postponed.

NATIONAL LEAGUE OF WOMEN VOTERS

726 Jackson Place, Washington, D. C.

100 Copies 75 cents



National League of Women Voters  
726 Jackson Place  
Washington, D. C.

May 1942

Price 1¢

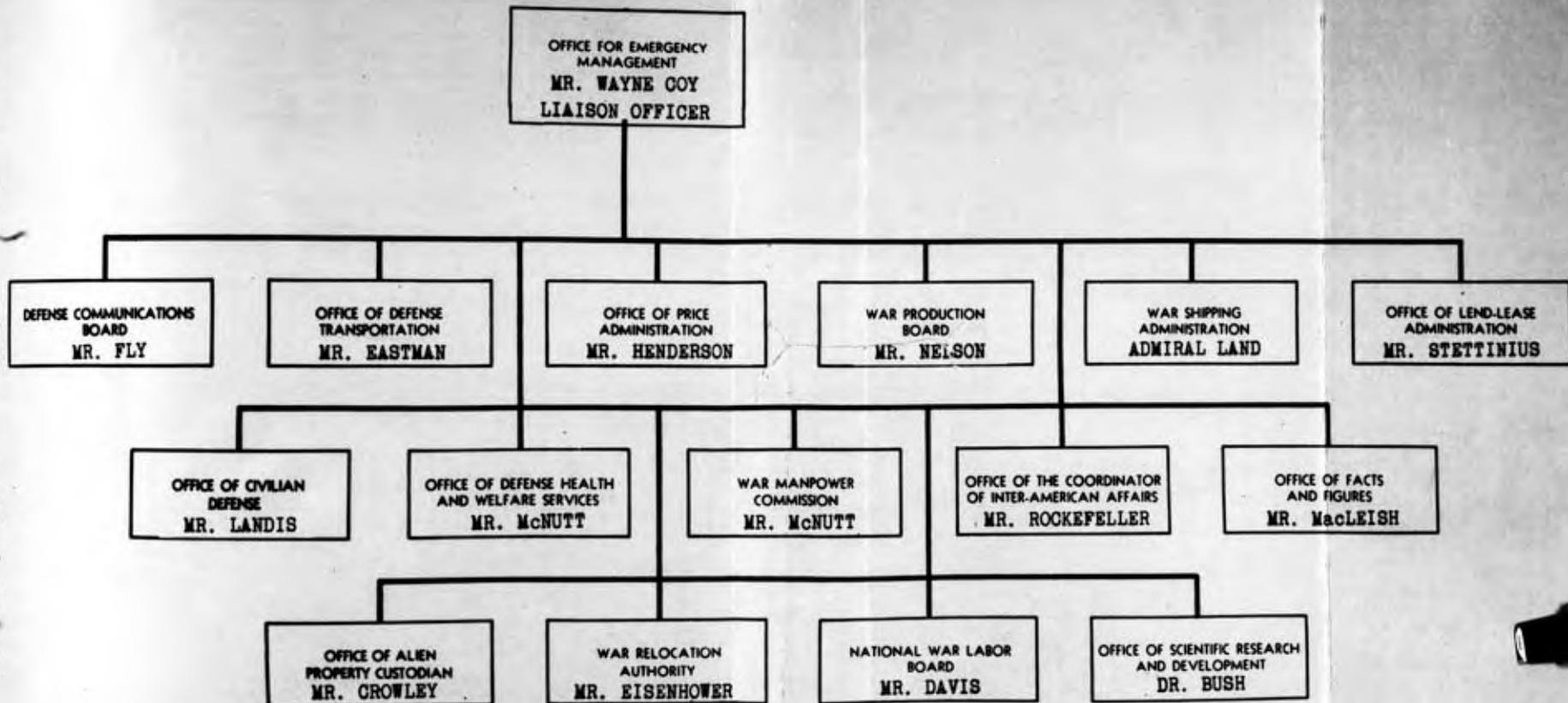
#### WITHHOLDING TAX

The Treasury Department has now made a recommendation to the House Ways and Means Committee for mandatory collection at the source of part of income taxes -- 10% of income in excess of personal exemptions and exemptions for dependents. The committee has deferred action, apparently waiting to sound out public opinion. The argument currently advanced against the proposal relates to the burden it would place on individuals the year it is put into effect. Below are a few answers:

1. By the time the tax bill is enacted those who are paying last year's income taxes in installments this year will likely be 3/4 paid up. (Sept. 15)
2. The amount proposed to be withheld would in most cases be less than the individual's total tax bill, very much less in the case of middle and higher income groups, thus leaving a considerable portion of the tax to be paid as usual during the year after the income is earned.
3. There is no way of eliminating all of the pain of putting a withholding tax into effect, but once done it is easier on everybody to pay the taxes as income is earned, rather than in a lump sum or four installments later.
4. The Treasury proposal compared with the need of drawing off purchasing power promptly is not a burdensome one; on the contrary it is puny. Heroic problems demand heroic solutions.

## OFFICE FOR EMERGENCY MANAGEMENT

The Office for Emergency Management was established in the Executive Office of the President by Administrative Order of May 25, 1940, in accordance with Executive Order No. 8248 of September 8, 1939. The Office is to "advise and assist the President in the discharge of extraordinary responsibilities imposed upon him" by the emergency conditions arising out of the unsettled world conditions; to serve as a division of the Executive Office of the President in and through which the activities of private and public agencies could be coordinated during any emergency; to serve as a channel of communication between such agencies and the President, to keep the President currently advised of their progress, to assemble and analyze information concerning additional measures that should be taken, and to assist in the preparation of recommendations for any necessary legislation; and to provide and maintain liaison during any emergency with other divisions of the Executive Office of the President and with other agencies, public or private, for the purpose of bringing about maximum utilization and coordination of their services and facilities.



May 13, 1942

MEMORANDUM TO THE SECRETARY

Attached are copies of a proposed Executive Order, Memorandum to the President, and a more detailed memorandum outlining the respective functions of the Treasury Department and the Alien Property Custodian. Copies of these have been furnished to Leo Crowley for his consideration.

Essentially these documents:

(1) Propose amending the Executive Order of March 11, 1942 so that all the powers of section 5(b) of the Trading with the enemy Act, as amended, be vested in both the Secretary of the Treasury and the Alien Property Custodian. The Order will not define the respective functions of each. Instead the Memorandum to the President, signed by both of you, will define such functions and the President's approval will be requested.

(2) Propose that the Alien Property Custodian have complete control over all enemy property (Germany, Italy, Japan, Rumania, Bulgaria and Hungary), and over all foreign patents, trademarks, copyrights and ships. The Alien Property Custodian will also be charged with the responsibility of protecting the interests of and representing enemy nationals in litigation, probate matters, receiverships, etc.

(3) Propose that the Secretary of the Treasury shall have everything except that referred to in (2) above. This includes complete control over all foreign property except that of the enemy and specifically includes the control of the assets of the occupied countries (e.g., Dutch and French assets) as well as those of the "neutrals" (e.g., Swiss assets).

(4) The Executive Order will also give the Secretary of the Treasury exclusive jurisdiction over section 3(a) of the Trading with the enemy Act (relating to trade and communication with the enemy).

Obviously no program will eliminate grounds for friction and dispute between the two agencies involved as long as they are both dealing with aspects of the same problem. However, if both exercise good faith and recognize that our only enemy is Hitler and the Axis, there will be plenty of real work for each without the need for encroaching upon the other.

P. H. 7 h.



THE SECRETARY OF THE TREASURY  
WASHINGTON

MEMORANDUM TO THE PRESIDENT:

We have been studying the respective functions of the Alien Property Custodian and the Treasury Department in the field of foreign property control. It is our feeling that the effectiveness of both agencies can be increased by each exercising certain of the powers now vested in the other under the Executive Order of March 11.

We have accordingly agreed upon and are submitting to you herewith for approval an amendment of such Executive Order. We believe this amendment will greatly facilitate the effective discharge of the functions which you intended to be administered by the Treasury Department and the Alien Property Custodian. It will also tend to reduce the possibility for legal attack on the administration of these powers.

The amending Order submitted herewith delegates all authority under Section 5(b) of the Trading with the enemy Act, as amended by the First War Powers Act, to both the Secretary of the Treasury and the Alien Property Custodian, acting jointly or severally (and all powers under Section 3(a) to the Secretary of the Treasury). In this way there will be no doubt that both agencies will have sufficiently broad powers to carry out their respective functions.

It is proposed that in the exercise of these powers the following functions will be performed by the respective agencies:

Alien Property Custodian

(a) When the Alien Property Custodian deems it in the national interests, completely controlling (including vesting) any property or interest of any enemy country (Germany, Italy, Japan, Bulgaria, Hungary and Rumania) or nationals thereof, regardless of how such property is cloaked.



- 2 -

(b) Taking such measures under Section 5(b), as the Alien Property Custodian deems necessary in the national interests, with respect to:

(1) any enemy business enterprise doing business within the United States and any property or interest in such business enterprise, including in particular the vesting, management and supervision of any such enterprise;

(2) any patent, trademark, copyright or interest therein in which any foreign country or national thereof has any interest;

(3) any ship or vessel in which any foreign country or national thereof has an interest.

(c) Receiving notices in pending litigation on behalf of persons within enemy and enemy-occupied countries, and taking such steps as the Alien Property Custodian deems necessary in connection with representing such persons in such litigation.

Of course, when the Alien Property Custodian, in accordance with the above, has notified the Secretary of the Treasury that he has taken control of any property or interest therein, the Secretary of the Treasury will release all control of any such property or interest therein, to the Alien Property Custodian, and will not exercise any power or authority with respect thereto, except as authorized by the Alien Property Custodian.

#### Secretary of the Treasury

Subject to the foregoing, the Secretary of the Treasury will exercise such powers and authority as the Secretary of the Treasury deems necessary to carry out the purposes and objectives of the freezing orders and regulations.

If at any time the Secretary of the Treasury and the Alien Property Custodian should agree that either one should perform in any particular case the functions which have been

- 3 -

generally assigned to the other, the amendment submitted herewith will, of course, enable this to be done.

If you are in agreement, it will be appreciated if you will sign the annexed Order, and indicate below your approval of the above.

Secretary of the Treasury

Alien Property Custodian.

APPROVED:

THE WHITE HOUSE,

May , 1942.

## EXECUTIVE ORDER

-----

AMENDING EXECUTIVE ORDER NO. 9095  
ESTABLISHING THE OFFICE OF ALIEN  
PROPERTY CUSTODIAN AND DEFINING ITS  
FUNCTIONS AND DUTIES AND RELATED MATTERS.

By virtue of the authority vested in me by the Constitution, by the Trading with the enemy Act of October 6, 1917, as amended by the First War Powers Act, 1941, and as President of the United States, it is hereby ordered as follows:

Sections 2, 3 and 4 of Executive Order No. 9095 of March 11, 1942, are amended to read as follows:

"(2) In the exercise of the authority herein delegated, the Alien Property Custodian shall be subject to the provisions of Executive Order No. 8839 of July 30, 1941, and shall designate a representative to the Board of Economic Warfare in accordance with section 6 thereof.

"(3) All power and authority conferred upon me by section 5(b) of the Trading with the enemy Act, as amended, is hereby delegated to the Secretary of the Treasury and the Alien Property Custodian, acting jointly or severally, and acting directly or through any person, agency or instrumentality designated by them or either of them.

- 2 -

All power and authority conferred upon me by section 3(a) of the Trading with the enemy Act, as amended, is hereby delegated to the Secretary of the Treasury.

"(4) This Executive Order shall not be deemed to modify or amend Executive Order No. 8843 of August 9, 1941, and the regulations, rulings, licenses and other action taken thereunder. Any and all action heretofore taken by the Secretary of the Treasury, or by any person, agency or instrumentality designated by him, pursuant to sections 3(a) and 5(b) of the Trading with the enemy Act, as amended, and any and all action heretofore taken by the Board of Governors of the Federal Reserve System pursuant to Executive Order No. 8843 of August 9, 1941, are hereby confirmed and ratified."

THE WHITE HOUSE,

May , 1942.

TREASURY PROPOSAL OF MAY 11, 1942

All the powers of section 5(b) be delegated by Executive Order to the Secretary of the Treasury and the Alien Property Custodian acting separately or jointly. That there be an understanding between the two agencies covered by a Memorandum to the President, approved by him dividing the functions under section 5(b) substantially as follows:

1. APC to be able to exercise all the powers under section 5(b) including the administration and complete control (such as freezing control, blocking and unblocking of accounts, the licensing system, regulations of every type, and outright vesting) over the following:
  - (a) All property of every kind and description (including gold, bullion, currency, cash, bank accounts, securities, choses in action, tangible and intangible personal property, real property, etc.) belonging to enemy aliens (including at the present time only the six countries (Germany, Italy, Japan, Hungary, Roumania and Bulgaria) with whom we are formally at war, and all nationals of such six countries, and excluding all other countries (such as Poland, Finland, Denmark, Holland, Belgium and all other over-run and nominally neutral countries) and their nationals, as well as Proclaimed List nationals and aliens residing outside of the six enemy countries, but reserving the right to include such countries, if any, and their nationals, who may later become enemies]; or belonging to any others who may be "fronts" or "stooges" for enemy aliens. [This latter means that if property is held in the name of (for instance) a Swiss national but the real owner or real party in interest is an enemy alien, then for all intents and purposes it is the property of such enemy alien and so comes under the control of the APC. The determination of whether or not an enemy alien is the real party in interest, and of whether or not an enemy alien interest lies behind another "front", shall rest with the APC, who shall notify the Secretary with respect to the

- 2 -

existence of the enemy interests affecting particular property.]

- (b) Subdivision (a) shall also be deemed to include any enemy business enterprise doing business within the United States, including in particular the vesting, management, supervision and liquidation (judicial and extra-judicial) of any such enterprise.
  - (c) All patents, trademarks, copyrights, and ships or any interest therein owned by aliens. This is not confined to enemy aliens but covers all foreign interests.
  - (d) All litigation (including all probate and surrogate court matters, bankruptcies, receiverships, and judicial reorganizations) in connection with any of the foregoing, as well as litigation involving the receipt of notices on behalf of persons within enemy and enemy-occupied countries and representing such persons in litigation.
  - (e) All powers of investigation and taking of census and requiring of reports, etc. in connection with any of the foregoing.
2. The Treasury to have the functions under section 5(b) more fully described in a memorandum of May 4, 1942, handed to the APC. This will involve continuance of functions presently exercised by the Treasury except that when the APC, in accordance with the above, notifies the Secretary of the Treasury that he has exercised authority with respect to any of the categories of property mentioned above, the Secretary of the Treasury will release all control of such property and will thereafter refrain from exercising any power or authority with respect thereto except at the request of the APC. In this way it will be possible for the Government to carry on in the interests of the war all necessary functions and bridge the transition during which the APC builds up his organization to discharge his functions. The Treasury will continue to exercise all the powers under section 5(b) over matters such as the following:
- (a) All foreign-owned property except categories listed above. This will include the property belonging to

- 3 -

over-run countries, nominally neutral countries, Proclaimed List nationals, China, etc.

- (b) The taking of a census of foreign-owned property within the United States and foreign claims against American citizens together with a census of American-owned property abroad and American claims against foreign nationals. In addition, the conducting of investigations in connection with any of the functions of the Treasury Department under this memorandum.
- (c) All censorship matters as they relate to the functions to be discharged by the Treasury in coordination with State, BW, etc. on international financial and trade controls.
- (d) Ad hoc freezing of individuals and firms with the view to being able to regulate their use of dollar funds and obtain information as to activities in which they are engaged.
- (e) Securities and currency controls, including restrictions on importations thereof and dealings in certain classes of securities and currencies.

5/13/42

Table I-A  
Aircraft Production  
January-March 1942

Type	March 1942	January-March 1942
Pursuit.....	776	2,406
Light and medium bombers.....	575	1,361
Heavy bombers.....	156	376
Naval patrol bombers.....	49	164
Trainers.....	1,369	3,857
Other military types.....	<u>537</u>	<u>1,315</u>
Total.....	<u>3,462</u>	<u>9,479</u>

Office of the Secretary of the Treasury, May 13, 1942.  
Division of Research and Statistics.

Source: War Production Board.

STRICTLY CONFIDENTIAL 86

Table I-B

Aircraft Production by Models

Type and model	March 1942
<u>Pursuit</u>	
F2A.....	1
F4F-4.....	90
P-38-E.....	100
P-39D.....	70
P-39F.....	35
P-39J.....	36
P-40E-1.....	293
P-40F.....	55
P-43A-1.....	25
P-47-B.....	5
P-51.....	52
P-66.....	14
Total pursuits.....	<u>776</u>
<u>Light and medium bombers</u>	
A-20.....	2
A-20G.....	122
A-29.....	92
A-30.....	39
B-25C.....	148
B-25D.....	3
B-26A.....	49
B-34.....	66
SBD-3.....	24
TBF.....	17
SBN-1.....	3
V-72.....	10
Total light and medium bombers.....	<u>575</u>
<u>Heavy bombers</u>	
B-17E.....	85
B-24D.....	71
Total heavy bombers.....	<u>156</u>
<u>Naval patrol bombers</u>	
PBY-5.....	49

(Continued)

STRICTLY CONFIDENTIAL 87

Table I-B (Continued)  
Aircraft Production by Models

Type and model	March 1942
<b>Trainers</b>	
AT-6, BNJ-3.....	212
AT-9.....	107
AT-11, C-188.....	53
AT-17, T-50.....	137
BT-13, BT-15.....	325
NE-1.....	20
NP-1.....	26
PT-17, 75, 27.....	189
PT-19, M-62.....	120
PT-22.....	180
<b>Total trainers.....</b>	<b>1,369</b>
<b>Other military types</b>	
C-47, R4D.....	38
C-54A.....	1
O61, F-24.....	14
DC-3, O53, O68.....	19
GH.....	1
J4F, G44.....	5
J2F-5.....	2
JRF.....	6
<i>Aeronca</i> O-58B.....	78
<i>ipax</i> O-59A.....	165
<i>Taylorcraft</i> O-57A.....	73
O82N-1.....	21
<i>Waco</i> O82U-3.....	95
<i>Vultee</i> O-49A.....	3
YC-64.....	1
18, (Lodestar) 15, C-59, 60, 12.....	15
<b>Total other military types.....</b>	<b>537</b>

Office of the Secretary of the Treasury, May 13, 1942.  
Division of Research and Statistics.

Source: War Production Board.

TREASURY DEPARTMENT

188

INTER OFFICE COMMUNICATION

DATE May 13, 1942

TO Secretary Morgenthau  
FROM Mr. Kamarck

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

Summary

1. In the last third of April, the United States shipped to the U.S.S.R. 62 planes (30 pursuit, 32 bombers) and 66 tanks (44 light, 22 medium).
2. In April, only 174 planes were sent to Russia, compared to 238 in February and 238 in March. On the other hand, 503 tanks were shipped to the Russians in April, compared to 210 in February and 417 in March.
3. To the shipment of 503 American tanks in April, there must be added the movement of 130 Canadian tanks (70 medium, 60 light) from American ports to Russia during the month.

Table A

Shipment of Planes and Tanks from  
the United States to the U.S.S.R. \*

	<u>Shipments during April 20-30</u>	<u>Cumulative total January 1, 1942 to April 30, 1942</u>
<u>Planes</u>		
Pursuit	30	367
Bombers	<u>32</u>	<u>343</u>
Total	62	710
<u>Tanks</u>		
Light	44	638
Medium	<u>22</u>	<u>534</u>
Total	66	1,172

\* Based on export declarations received.

- 3 -

Table BShipments of Planes and Tanks to  
U.S.S.R. by months \*

	<u>Fighters</u>	<u>Bombers</u>	<u>Total Planes</u>	<u>Light Tanks</u>	<u>Medium Tanks</u>	<u>Total Tanks</u>
January, 1942	56	4	60	20	22	42
February	123	115	238	172	38	210
Merch	68	170	238	159	258	417
April	<u>120</u>	<u>54</u>	<u>174</u>	<u>287</u>	<u>216</u>	<u>503</u>
Total 1942, to May 1	367	343	710	638	534	1,172

\* Based on export declarations received.

Table C

Shipment of Canadian Tanks through  
American Ports to the U.S.S.R.\*

	<u>Light tanks</u>	<u>Medium tanks</u>	<u>Total</u>
April 1 - 10, 1942	0	70	70
April 10 - 20, 1942	40	0	40
April 20 - 30, 1942	<u>20</u>	<u>0</u>	<u>20</u>
Total, April shipments .	60	70	130

\* Based on export declarations; may be incomplete due to lack of complete coverage of Lend-Lease shipments. Future reports on a monthly basis will be more complete.

May 13, 1943.

My dear Sir Frederick:

It was very good of you to present to me  
the collection of Savings Posters used in England.  
I am very glad to have these interesting examples  
of the campaign that has been carried on there.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Sir Frederick Phillips,  
Willard Hotel,  
Washington, D. C.

GEF/dba

*file n.m.c.*

Willard Hotel,  
Washington, D.C.  
May 12th, 1942.

Dear Mr. Secretary,

I am leaving with this letter a collection of Savings Posters used in England. The set is complete except for some large wall posters, which I could obtain if you desire. They are, however, mainly reproductions, on a larger scale, of the designs on the smaller posters.

Yours sincerely,

*F Phillips*

The Honourable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D.C.

MAY 13 1942

Dear Sirs:

This will confirm specific authorization of the Secretary of the Treasury of which you were advised by telephone today, to purchase, as fiscal agent of United States, in accordance with the letter of the Secretary of the Treasury to you dated September 4, 1934, for account of the fund established in Section 10 of the Gold Reserve Act of 1934, from Banco de Portugal, Lisbon, foreign exchange as follows:

About 3,500,000 Swiss francs cable transfer Zurich value May 18 at a rate not in excess of 23.30 cents per Swiss franc, against United States dollars placed to the credit of Banco de Portugal's account with you, it being understood that Treasury Department would license prompt conversion of such dollars into gold earmarked for account of Banco de Portugal, Lisbon, in your vaults.

The cost of the Swiss francs including out of pocket or other necessary expenses is to be charged to the account on your books designated "Secretary of the Treasury Special Account".

- 2 -

This will also confirm the authorization and instructions of which you were advised by telephone to arrange with the Banque Nationale Suisse, Zurich, for the opening of a Swiss franc account on its books, in your name as fiscal agent of United States, designated "Federal Reserve Bank of New York Account No. 2", and to have the above-mentioned Swiss francs paid to the credit of such account with the Banque Nationale Suisse, Zurich.

Very truly yours,

(Signed) D. W. BELL

Acting **Secretary of the Treasury.**

Federal Reserve Bank of New York,  
New York, New York.

BB/ma - 5/14/42

TREASURY DEPARTMENT

196

INTER OFFICE COMMUNICATION

DATE May 13, 1942

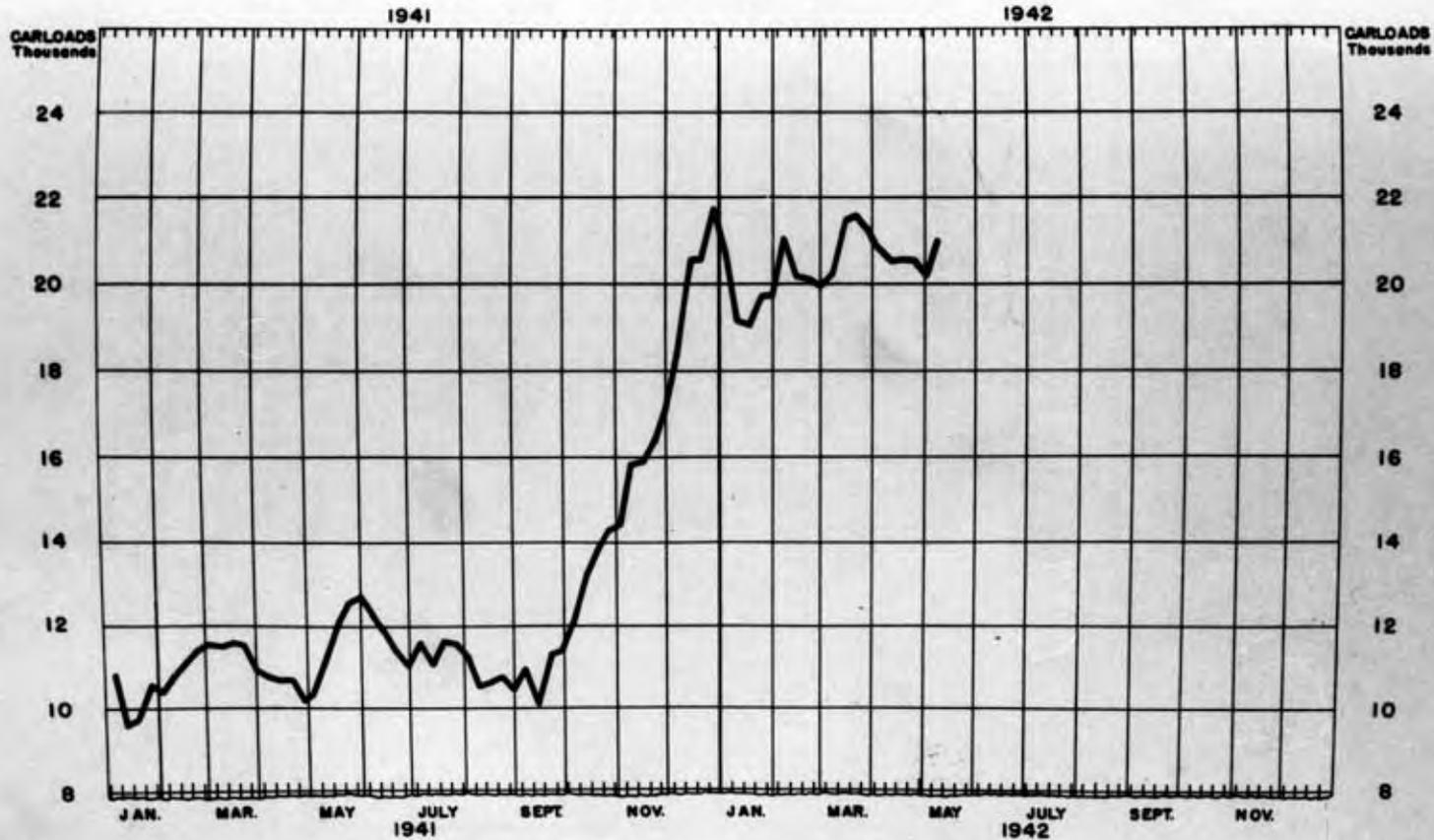
TO Secretary Morgenthau  
FROM Mr. ~~Hagg~~  
Subject: Export Freight Situation

Lighterage freight in storage and on hand for unloading in New York harbor increased by 848 cars to 20,990 cars during the last week. (See Chart 1.) Additional rail storage space for 6,327 cars was available in New York at the end of the week.

Exports from New York decreased by 24 percent to 5,904 cars. (See Chart 2, upper section.)

Receipts for export at New York dropped from 7,387 cars to 6,668 cars in the past week. Receipts for export at 9 North Atlantic ports also dropped considerably from 3,488 cars to 2,725 cars, the lowest figure since January. However, receipts for export at 6 Pacific ports increased by 27 percent to 3,591 cars. This is a peak since at least the middle of February 1941. (See Chart 2, lower section.)

# LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR\*



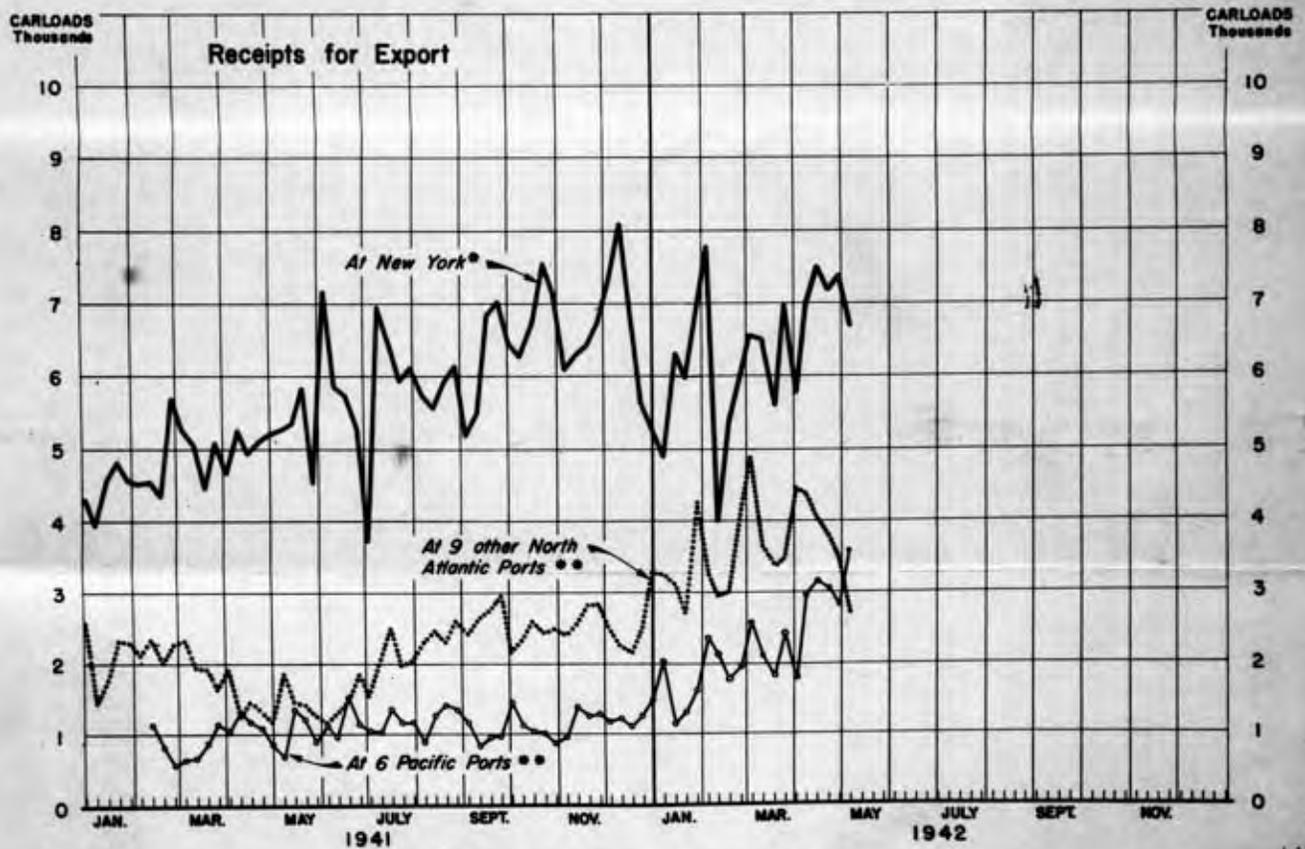
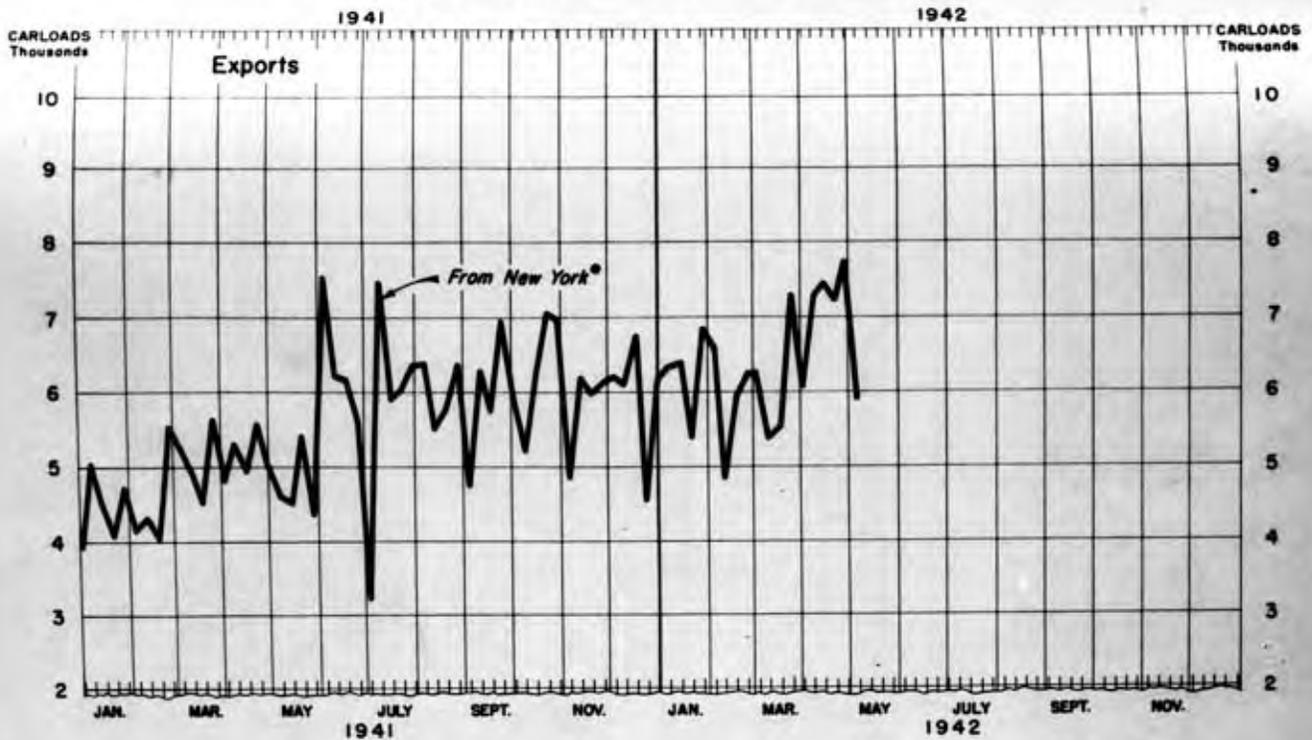
\* Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.

Office of the Secretary of the Treasury  
Bureau of Economic and Statistics

C-303-0

Chart 1  
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# EXPORT FREIGHT MOVEMENT



\* As estimated from data of general managers' association of New York.  
 \*\* Association of American Railroads.

C  
O  
P  
Y

199

GRAY

CHUNGKING

Dated May 13, 1942

Rec'd 5:27 p.m.

MJF

Secretary of State

Washington.

556, May 13, 2 p.m.

FOR SECRETARY OF TREASURY FROM ADLER

"TF 35. In view of interruption of naval radio service please authorize Embassy Chungking through State Department to pay for telegrams to Treasury from beginning May accordance section V-45 Foreign Service Regulation."

GAUSS

JRL

eh:copy  
5-15-42

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

Capetown

Dated May 13, 1942

Rec'd 8:47 a.m.

Secretary of State,  
Washington.

67, May 13, 10 a.m.

The South African Reserve Bank has informed me that the procedure outlined in the Department's telegram no. 36 of April 9, 2 p.m. for negotiating and handling Treasury checks and United States currency exchanged for official purposes at the rate of \$4.035 has now been put into operation in the Union of South Africa.

The bank requests that the Federal Reserve Bank of New York approach it direct regarding telegraphic transfers under this arrangement.

KEENA

RDS

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 158

Information received up to 7 A.M., 13 May, 1942.

1. NAVAL

Motor Gunboats were in action with E-boats and light craft early on 12th off the coast of FLANDERS and damaged at least 1 E-boat. 4 of H.M. Destroyers including LIVELY, KIPLING and JACKAL were attacked by aircraft on the afternoon of the 11th to the north of the GULF OF SOLLUM and LIVELY was sunk. In a subsequent attack, KIPLING and JACKAL were hit and the former sank. The latter was taken in tow but sank the following morning. About 500 survivors from the three ships were rescued. Beaufighters destroyed 1 and damaged 7 enemy aircraft. One of H.M. submarines has been sunk, no details have yet been received. 3 British ships totalling about 17,000 tons and 2 Allied ships totalling about 10,000 tons, all in convoy to HALIFAX were sunk by U-boat on the 11th, 700 miles west of IRELAND (R).

2. MILITARY

RUSSIA. Strong German bomber and dive bomber formations supported their ground troops in the attack on the Russian positions on the KERCH PENINSULA on 7th and 8th.

3. AIR OPERATIONS

MALTA. Between 1530/11th and 1100/12th, 11 bombers escorted by many fighters (some carrying bombs) attacked. Our fighters destroyed 3 enemy aircraft, probably destroyed 3 and damaged 9. We lost 4 Spitfires, 3 pilots safe.

BURMA. 11th. Three Hudsons and two Wellingtons bombed the runways and aerodrome buildings at AKYAB.

4. Reconnaissance of DAKAR 10th and CASABLANCA 11th, showed no change in the positions of French major naval units.



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

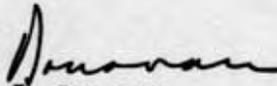
May 13, 1942

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

My dear Mr. Secretary:

The attached is a summary of  
the British Political Warfare Weekly General  
Directive. It is requested that none of  
this be used for quotation, publication,  
or open broadcasting.

Sincerely,

  
William J. Donovan

Attachment

**SECRET**

COORDINATE OF INFORMATION

1. Strategy: (a) Russia. Large scale offensive improbable before second half of May or early June, except in Crimea. Operations impeded by thaw conditions. Soviet force which landed April 28th on southern shore of Motovski Gulf are still operating behind German front line positions on Litsa River. At present total number of German forces, including <sup>[Finnish - ask]</sup> Finnish, on Russian front amounts to 180 divisions. (b) <sup>Libya</sup> Lybia. Patrol activity. (c) Malta. On May 8th air offensive was resumed. 59 Spitfires arrived during raid on May 9th with result that 21 enemy aircraft definitely destroyed, 19 probably, and 28 damaged as against three Spitfires lost.

2. Strategy guidance. (a) Russia. Emphasize inadequacy of Luftwaffe on all fronts. Link it up with Axis shortage of manpower and seapower. Point out that the power-gap is inexorably widening. Emphasize that because he sees his Nemesis approaching, Hitler armed himself against the home front while preparing on the Russian front a last desperate gamble. Remind Axis satellite nations that brunt of attacks by superior Russian air force is falling on them. (b) Madagascar. The Axis is anxious to convince the World they hold the strategical advantage in geographical alignments, declaring that if Germany can advance to Persia via India, the Allies will be caught in a pincer in the Middle East. Reject this fantasy. Point out that it was to prevent the remote chance of a Japanese naval excursion across Indian Ocean that we seized Diego Suarez and other key points in Madagascar. Proof of Anglo-American dominations of the seas can be found in fact that considerable expedition was convoyed without the loss of a single ship. (c) Far East. Japs claim naval forces on western side of New Guinea occupied Babo, Fafak, Manokwari, Hollandia,

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Intelligence Reports

Morale in Germany

The British Political Warfare Executive from its analysis of morale in Germany states that the main British propaganda objective towards Germany is to show the Germans that a United Nations victory is a desirable goal for them. This is necessary in order to undermine their desperate will to resist to the bitter end, because of the fear of annihilation. "A solid message of hope to individual Germans is necessary in the very near future."

(U.K. Political Warfare Executive, C.O.I.,  
May 12, 1942)

Condition of the German Population

There are numerous indications that the hard work and long hours of the rearmament period and of the war have already considerably exhausted the German population. While the diet of the German people as a whole has been adequate during the war, it must be recognized that the "normal consumer" has had slightly less than an adequate intake of calories. The recent cuts in rations have fallen most heavily on the normal consumers, and even war workers will now be slightly below adequate standards. The reduction in rations added to the accumulated fatigue of years of over-work is imposing a very severe strain on large sections of the German people.

(U.K. Ministry of Economic Warfare, "Working Capacity and Physical Exhaustion of German Population", April 14, 1942)

### Use of American Planes

"When in service in England, (the Flying) Fortresses were handicapped by the almost constant grey skies of Northern Europe and had little chance to exploit their chief virtue - that of being able to operate at great heights. When they were sent to the Middle East, sand and rain-storms balked them, and once more the R.A.F. could not get the best from them. They dared not be used for normal day-bombing operations because of their inadequate armament. Doubtless, when the lessons of modern war have been embodied in the design, and a means found for accurate bombing from great heights, the Fortress will be a valuable asset to any Air Force operating against targets not frequently hidden by a blanket of clouds."

("The Aeroplane", April 10, 1942, p. 402-3)

### Finland

One evidence of increasing German control over Finland is the report of the London Monitoring Office of the Federal Communications Commission that control of Lahti, the official Finnish radio, was taken over by Germany around January 10 of this year.

(Federal Communications Commission, Quarterly Review, December 1, 1941 - March 1, 1942)

### Vichy France

(An interesting comment on our appeasement policy towards Vichy is the following report of the Federal Communications Commission on the policy of the Vichy radio from December 1 to March 1.)

"The degree to which commendation as against criticism was dispensed to the United States bore a significant relation to current diplomatic relationships between the two countries: when Washington was friendly, it was apt to be attacked; when the U.S.A. protested and warned, it was apt to be praised."

(Federal Communications Commission, Quarterly Review, December 1, 1941 - March 1, 1942)

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TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Thursday, May 14, 1942.  
5/13/42

Press Service  
No. 31-59.

Secretary Morgenthau today announced plans for the organization throughout the country of Victory Fund Committees to be set up in each Federal Reserve district and to be made up of bankers and members of the securities industry to aid the Treasury's financing program. This organization will work chiefly with the larger investors and will in no way duplicate the work of the War Savings Staff.

Because the nation's war needs have increased tremendously the money-raising responsibilities of the Treasury, the Secretary of the Treasury has accepted the offer of the banking and securities industry to co-ordinate their efforts in helping to distribute Government securities.

The organization announced today, in which committees headed by presidents of the Federal Reserve Banks will be set up in each Federal Reserve district, developed through assistance given the Treasury by the banking and securities industries.

The collaboration of these organizations will be formalized with the establishment of the new Victory Fund Committees, tied together nationally by a committee of Federal Reserve bank presidents, of which the Secretary of the Treasury will be chairman. The Chairman of the Board of Governors of the Federal Reserve System will provide the liaison between the Reserve banks and the Treasury.

In some districts executive committees may be set up for operating purposes, and district committees, with approval of the Secretary of the Treasury, may set up regional subcommittees.

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May 14, 1942  
11:25 a.m.

HMJr: Hello.

Operator: Schwarz.

HMJr: Hello.

Charles  
Schwarz: Yes, sir.

HMJr: Chick, I - if I called that thing an examination  
tax, I misspoke myself. It's an examination fee.

S: Examination fee.

HMJr: See?

S: I'll straighten it out.

HMJr: Will you, please?

S: I've already - I talked to Randolph Paul and told  
them - he doesn't have much doubt as to the  
constitutionality.

HMJr: But it's an - it'll be an examination fee, not a  
tax.

S: All right. Thanks.

HMJr: Be sure that you catch it.

S: Right away. Thank you.

May 14, 1942  
11:36 a.m.

Speaker  
Rayburn: Hello, Henry.

HMJr: Sam, I got a report from our Chief National Bank Examiner in Dallas.....

R: Uh huh.

HMJr: .....on this question of loans to oil wells.

R: Uh huh.

HMJr: Hello.

R: Yes.

HMJr: And so far everything's okay.

R: Fine.

HMJr: And there are some Chicago banks, though, that have some loans down there that are not so sympathetic.

R: I see.

HMJr: But we're watching it.

R: Well, now, here's what we have done.

HMJr: Yeah.

R: We had Jesse yesterday, talking to him.

HMJr: Yeah.

R: And he says - told these boys that where it's a bank like Chicago was fixing to move in on them and was going to move in on them.....

HMJr: What's that?

R: Where a bank like the bank at Chicago.....

HMJr: Yeah.

R: .....was going to move in on one of these fellows,

- 2 -

to let him know.....

HMJr: Yeah.

R: .....and he would try to get the thing refinanced before they closed them out.

HMJr: Well.....

R: I think it's a mighty good thing.

HMJr: Good. And we're watching it also.

R: All right. Now, Henry.....

HMJr: Yes, sir.

R: I saw Gore yesterday.

HMJr: Did you?

R: And I told him that I'd - I had information around that movements like his might be disturbing their bond sale effort.

HMJr: Yes.

R: And he said, "Well, I'll do whatever you say about it." Well, I said, "Albert, just let it lie around and don't do anything about it awhile. Let us see how we get along, and see whether we've got to have these enforced sales or not." And he said he'd be very glad to do it.

HMJr: Well, that's fine.

R: And so you can let that out in a way - he didn't authorize me to make a statement about it, but he said he'd let it lie here as long as I said so.

HMJr: Well, you don't mean I should say anything?

R: No, no. I mean some way here it could get out that that bill's not going to be pushed.

HMJr: Couldn't you.....

R: Couldn't put it on me, that I said that that was true.

- 3 -

HMJr: You couldn't tip off some of the boys when you come to see them? They'd take it so much better coming from the Hill. See, there are different boys cover the Hill than cover me.

R: Yeah, that's right. Well, if some of the boys who cover you were to drop by here.....

HMJr: I get you.

R: You could tell them to call me on the telephone when you have a meeting with them.

HMJr: That's.....

R: One of your best ones.

HMJr: I can arrange that.

R: All right. You have them call me.

HMJr: I can arrange that.

R: Yeah. And I'll tell them that it's - our leadership decided to do nothing about that for awhile. See?

HMJr: I can arrange that.

R: Yeah. All right, Henry.

HMJr: Thank you.

R: Thanks.

May 14, 1942  
4:45 p.m.

HMJr: Hello.

Senator Truman: Hello.

HMJr: Hello, Senator.

T: Hello. How are you, Mr. Secretary?

HMJr: Fine. I called you while you were away. I didn't know that you were away, but this question came up on this appointment in St. Louis.

T: Yes. Well, it was all right.

HMJr: And I just wanted to make sure, but Bennett assured me it was all right.

T: It's one hundred per cent all right, and he's right here in my office now, and you'll find he's a grand person.

HMJr: Well, I want to meet him.

T: Well, I want you to meet him.

HMJr: Yeah.

T: I think you'll fall for him just like I have.

HMJr: Well, I want to meet him.

T: Well, I'll arrange that.

HMJr: But Bennett assured me - in fact, he said that the suggestion originated with you.

T: That's right. It did.

HMJr: And.....

T: And if you'll set a time, some time tomorrow or the next day, when you want him to come down, I'll come down with him.

HMJr: Well, let me just see a minute. It would have

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to be tomorrow.

T: All right.

HMJr: Just a minute. He's only going to be here tomorrow. Is four-thirty a good time?

T: It would be perfectly all right with me.

HMJr: Well, then, supposing I put you down four-thirty tomorrow, Senator.

T: Four-thirty will be perfect.

HMJr: That'll be grand.

T: Do you want me to come to that same door I did before?

HMJr: If you would, please.

T: All right, I'll do that.

HMJr: Thank you.

T: All right.

May 14, 1942  
5:03 p.m.

HMJr: Hello.

Operator: Mr. Daniels.

HMJr: Hello.

Jonathan  
Daniels: Good afternoon, Mr. Secretary.

HMJr: How are you? Mr. Daniels, I'm calling you up - do you people interest yourself at all in doing anything about draftees when they leave their home town?

D: Mr. Secretary, we have urged the councils - I don't know whether we've urged them enough - to do something about having meetings - little meetings about it and escorting them into the train.

HMJr: Yeah.

D: Now, I don't know whether we've done enough about that, sir, and I think probably we ought to do more.

HMJr: Yeah. Well, I was interested, and I don't want to appear in the thing, but perfectly frankly, for instance, from Beacon, New York - B-e-a-c-o-n.....

D: Yes, sir.

HMJr: .....my boy goes on the twenty-first, and there's a hundred boys go.....

D: Yes, sir.

HMJr: .....from that town, at six-forty-five; and I wondered if that town's going to do anything to see these boys off - it's in Dutchess County, New York.

D: Well, I wouldn't know about that, sir, but I can find out for you, sir.

HMJr: I just was kind of curious. I don't want to appear in the matter, you see.

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D: Yes. On the twenty-third, is that?

HMJr: Twenty-one.

D: Twenty-first.

HMJr: And - from Beacon, New York, and I - if they were going to do ~~that~~, do it on a county-wide basis. I would - I mean, I just wouldn't single out Beacon, you know.

D: Uh huh.

HMJr: But I - you could do it if you did it on the basis to try to start something in Dutchess County, because it's the home of the President.

D: Uh huh.

HMJr: How would that be?

D: That would sound very good to me, sir, and let me check on it and call you back tomorrow.

HMJr: You see, on the basis that - just the way we're doing extra things there - we did the Amenia thing there - why don't we start something and when any draftees leave from Dutchess County, that we do something there.

D: Yes. Well, that'll be about a hundred boys?

HMJr: There's a hundred boys going out on the twenty-first.

D: From Beacon?

HMJr: Yes.

D: Let me check on that, Mr. Secretary, and call you tomorrow about it.

HMJr: Thank you.

D: Thank you, sir.

Treasury Department **216**  
Division of Monetary Research

Date.....5/20/42.....19

To: Miss Chauncey

From: H. D. White

For your files.

MEMORANDUM TO THE FILES

May 14, 1942.

Subject: Proposal to Freeze Argentina.

Meeting of Sub-Committee of the Board of Economic Warfare,  
Room 5701, Commerce, May 12, 1942.

Present: Acheson, Duggan and Meltzer from State; White, Pehle, Southard and duBois from Treasury; Pierson from Export-Import Bank; James from Coordinator of Information; Coe, Anderson and Oppenheimer from Board of Economic Warfare; and two others.

Mr. Coe acted as chairman of the meeting and began by asking Mr. Acheson if he had any comment to make on the Treasury proposal to freeze Argentine funds and grant Argentina a general license.

Mr. Acheson replied that he had had the Treasury memorandum for only an hour and had not had an opportunity to examine the documents referred to in it in order to see what was needed or what could be done to cure each situation set forth by the Treasury. He stated with considerable emphasis that the extension of freezing control to Argentina was a very serious step which would be in opposition to our whole Latin American policy. It would upset and reverse the present perceptible trend against the Castillo Government in Argentina. It would in addition cause a bad reaction in the other Latin American countries. Admittedly, he said, steps need to be taken in view of the Argentine situation but he urged that we not "walk in with a club to kill a mosquito". He concluded by saying that there would be the "most violent opposition" in the State Department to the extension of freezing control to Argentina.

Mr. Acheson referred to Mr. Duggan's judgment of political consequences of the proposed step. Mr. Duggan simply said that he concurred wholly with the position taken by Mr. Acheson.

Mr. White remarked that copies of a memorandum prepared in the Treasury for the use of the Secretary were available and that he did not think that the detailed examples contained therein needed discussion. He asked that the whole Argentine picture be kept in mind. He conceded freely that, of course, no one item is particularly important. The broad and inescapable fact is that Argentina is not cooperating, has no intention of cooperating and is a hotbed of intrigue against the cause of the United Nations. Admittedly, freezing would not cure a lot of individual matters in the Argentine situation but in view of the whole problem freezing is required. If the State Department feels that it can stop all the individual acts which are occurring under the shelter of Argentine "neutrality" the State Department is, of course, the best judge of the matter. If freezing is not possible

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in the judgment of the State Department there was hardly any use looking for more examples of financial operations from which Axis powers benefited. Mr. White inquired whether the State Department had data to refute the positions taken in the memoranda prepared by the Federal Bureau of Investigation and the Coordinator of Information. He asked why it was sensible to treat Argentina better than the four European neutrals were being treated and expressed as his opinion that we were offering no conspicuous advantages to the other 18 American republics who are cooperating. In the final analysis, however, it would have to be conceded that if the State Department wants to take no step which might weaken the Government of Argentina there was little use in discussing the matter further.

Mr. Anderson, BEW, asserted that it was up to the State Department to tell other agencies how to handle Argentina if the step suggested by the Treasury was not to be taken.

Mr. Acheson, replying to Messrs. White and Anderson, pointed out that we had the opportunity at the Rio Conference of putting Argentina and Chile "beyond the pale" but we did not take that course. He said it should not be forgotten that the other countries of Latin America are still suspicious of United States and that they would resent our steps against Argentina. Of course, Argentina is cooperating less than the other Latin American countries, but the question is how to get that country to cooperate. The State Department believes there is a growing popular opinion in Argentina against the Argentine Government and that nothing should be done to interfere with that development. Mr. Acheson denied that we are treating Argentina in the same way as we are treating the 18 cooperating republics.

Mr. Pierson, Export-Import Bank, said that it was his opinion that we freezing Argentina was the worst thing we could do and should be done only as a last resort.

Mr. Southard reverted to the position taken by Mr. White and asked Mr. Duggan if he would elaborate further on the politics relating to two matters: (1) Why should we assume that the other American republics would resent the taking of strong steps against Argentina? Why, on the contrary, would it not be assumed that the other republics are at present resentful of the fact that while they have stuck their necks out and broken off relations with the Axis Argentina is still sitting on the fence and has not conspicuously suffered as a result? (2) Why should we fear the consequences so far as Argentine reaction is concerned of placing Argentina in the same position as we have placed the four European neutrals?

Mr. Duggan replied that the Argentines are a "proud and sensitive people" and cannot be pushed around bluntly. He reviewed the events following Pearl Harbor in which the Argentine Military and Naval Mission

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came to United States to get equipment. The State Department and other agencies tried patiently to get the Mission to agree to certain definite concessions (which Mr. Duggan refused to detail) in return for equipment. The Argentine civil government refused to allow the Mission to make these concessions and it went back with empty hands. Since then the State Department considers that there is reason to believe that the military authorities in Argentina are asking themselves whether a mistake isn't being made by Argentina and whether a closer military cooperation with this country isn't advisable. Since the present Argentine Government is maintained in power by the Army and Navy, it is felt in the State Department that it is worth while playing along with that state of mind. In addition the curtailment of exports to Argentina, of which no secret is being made, is having its effect in Argentina. The State Department's position is that we cannot expect quick results from this policy of maneuvering Argentina into a position of cooperation. We must go along patiently with our friends in Argentina and do nothing to weaken their efforts of swinging their country into line.

Mr. Duggan emphasized that we should never lose sight of the deep-rooted suspicion of United States which still exists in Latin America. It is therefore necessary that we lean over backwards to avoid any step or policy which will fan that suspicion into activity. This has been the policy for eight years. Therefore, we must have 100 percent justification before taking strong action against Argentina in order to win the support of the other republics. It is better to study the individual problems involved in the Argentine situation and to find individual remedies for them.

Messrs. Oppenheimer and Anderson of the BEW asked further questions of Mr. Duggan, expressing doubt that the Argentine change in sentiment Mr. Duggan seemed to perceive was encouraging enough to justify avoiding stronger steps and doubting that the Argentine Military Mission could have been trusted even if it had given guarantees.

Mr. White said that, of course, all of us agreed heartily with the good neighbor policy and further agreed that it was one factor in better Latin American cooperation with United States in this war than in the last war. He said, however, that we should not lose sight of the fact that the Latin American countries themselves realize that they have greater reason for cooperating with us in this war since clearly the threat to them in this war is much greater than in the last war. Mr. White said further that he had understood from second or third hand information at Rio that we had talked "tough" to Argentina. Yet now after four months Argentina has taken no steps to implement the Rio resolutions and is clearly waiting until the war issue is clear. Our soft policy toward Argentina is becoming hard to understand and may in fact be actually strengthening the

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determination of the Argentine Government to go its own way. Another possible consequence is that we are making the position of other Latin American countries more difficult since their people may wonder whether the Argentines haven't been smart to stay on the fence. He said he wanted to make it clear that we are not asking that Argentina be put "beyond the pale". On the contrary, we are asking only that Argentina be placed in position of the four European neutrals. This is not a severe step. Of course, Mr. White conceded, if the State Department thinks this step will make matters worse with reference to our whole Latin American policy that would settle the question, but he pointed out that this decision is a matter of both fact and opinion. Mr. Duggan agreed that this was the case. At this point Mr. Southard emphasized that placing Argentina under a general license is not a startling step since it serves only to prevent our monetary system from being used by Argentine nationals for the aid of the enemy. He suggested that there must be some misconception among several people in the room as to the nature of a general license.

At this point Mr. Pierson observed that if we wanted to open up a second front this might be a good step to take. Mr. White asked Mr. Pierson if he had in mind that Argentina would join Germany and attack Brazil. Mr. Pierson nodded in agreement.

Messrs. James and Pierson agreed that great caution should be used in taking any such step as that proposed. James, however, clearly misconceived the nature of a general license. Messrs. Oppenheimer and Southard expressed the opinion that firmness against Argentina is likely to win respect for us in Latin America instead of the contrary. Mr. Southard elaborated on his opinion, asking Mr. Duggan if it was not possibly true that the Argentines were not over popular in Latin America and we therefore might actually anticipate favorable reaction from the other countries were we to place Argentina under freezing control. Mr. Duggan agreed that Argentina was not particularly popular and said that at two Pan-American conferences he had attended there was much cloak room muttering against Argentina's tactics of obstruction. Mr. Duggan did not follow through on this observation, however, and did not openly concede Mr. Southard's suggestion.

Mr. Acheson said that in any event Argentine offenses should be studied to see what cures could be found for each individual one. At this point he had to leave the meeting and agreed, as he left, that a sub-committee should be appointed consisting of Messrs. Coe, White and Duggan to report the differences of opinion and the points of agreement to the Board of Economic Warfare at its next meeting.

3  
TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE May 14, 1942.

TO Secretary Morgenthau  
FROM Mr. Thompson

With reference to your telephone conversation with Mr. Carey in the Hinckley case, Mr. Spingarn talked to Mr. Carey by telephone and after discussing the case Mr. Carey stated: "Well you have a decision to make. I know what I would do if I were in your place. I would have no trouble about it. I would throw him out so fast he would bounce."

Mr. Carey's name was never mentioned in Mr. Spingarn's conferences on the subject with local CIO representatives, but he did mention to Eleanor Nelson, Secretary-Treasurer of the local CIO, that a top-ranking officer of the national office had indicated that the Department would be making a serious mistake if it retained Mr. Hinckley in its employment. Subsequently, when Miss Nelson sent in a written protest on the case, this statement, which previously had been made to her orally, was repeated in the letter of reply. Mr. Spingarn advised me at the time that he had checked through Leo Goodman of our War Savings staff in the matter and that Leo had told him that Mr. Carey had stated to him that he didn't care whether we used his name or not. However, as pointed out, his name was not used, but Mr. Spingarn felt that it would dampen the ardor of Miss Nelson if she knew that a high-ranking officer at national headquarters was on the Treasury side, and that was the basis for the statement.

*Thompson*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 14, 1942.

TO Mrs. Klotz  
FROM Secretary Morgenthau

I wish to send the editorial on Treasury financing to the President today, also to my son, Bob.

*Sent 5/14/42 -*

May 14, 1942

My dear Mr. President:

I thought the enclosed editorial in today's Herald Tribune was very nice, and that you might like to see it.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,  
The White House.

n.m.c.

By Messenger *Bundy* 4:45

NEW YORK  
**Herald Tribune**

MAY 14 1942

### The Treasury's Operations

The chief characteristic of the Treasury's borrowing program in the present war, as distinguished from that of World War I, is its policy of diversifying the type of security offered with the idea of reaching every conceivable reservoir of investible funds.

Announcement that subscription books would be closed at midnight tonight on the offering of 2½ per cent bonds of 1962-'67 calls attention to the fact that the Treasury has scored another signal success in pursuing this policy of diversification. This issue represented a new departure in American financing.

It was the first American experiment with a type of offering now in use for some time in Great Britain, the so-called "tap" issue. A "tap" issue is an issue on which the books are left open for an indefinite period and is usually set up in such a way as to appeal to non-commercial bank investors. The present issue follows these specifications. The bonds are registered, rather than bearer; they are non-negotiable for a period of sixty days after issue, and banks may not subscribe to them or hold them during the first ten years of their life. Despite this rigid exclusion of banks of deposit from participation, however, it is estimated that in the ten days since the books were opened subscriptions have aggregated upward of \$800,000,000, with \$1,000,000,000 a possibility by midnight tonight.

Incidentally, this very diversification of Treasury financing has tended greatly to minimize the really gigantic dimensions of the operations of the Treasury these days. Mr.

Morgenthau announced early this month that it would be necessary to raise \$2,000,000,000 in "new money" in May and June. At the same time that books were opened on the above-mentioned "tap" issue subscriptions were entertained for \$1,250,000,000 nine-year bonds, designed to appeal to the commercial banks, and the regular weekly offering of Treasury ninety-day bills was stepped up from \$150,000,000 to \$250,000,000. The nine-year bonds were oversubscribed two and one-half times. Assuming that the allotment aggregates the \$1,250,000,000 originally sought by the Treasury, we find the thumb-nail story of the May financing to be: \$1,250,000,000 raised by the sale of bonds to the banks, \$500,000,000 through additional sales of discount bills and \$1,000,000,000 through the "tap" issue. Add to this \$600,000,000 or thereabout realized through the sale of war bonds and you get \$3,150,000,000. The regular sale of bills assures \$400,000,000 in June and the sale of war bonds should total at least another \$600,000,000. If the Treasury should borrow an additional \$2,000,000,000 in the open market, as it is now expected to do, this would bring the total of "new money" raised in the two months to well over \$6,000,000,000.

In other words, with almost no fanfare, and with probably comparatively few persons aware of the fact, the Treasury is in a fair way to raising in this sixty-day period more money than was raised in any of the Liberty Loan campaigns of World War I, the simple exception being the Fourth Loan, when \$6,000,000,000 was sought and \$5,865,000,000 subscribed.

May 14, 1942

TO: Mr. Graves  
Mr. Gamble

FROM: The Secretary

I am sending you herewith a copy of a letter  
from Mrs. August Bellanca.

Please speak to me about it the next time you  
see me.

*5/19 - Graves reported  
"Finished"*

**COPY**

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**AMALGAMATED CLOTHING WORKERS**

**OF AMERICA**

**15 Union Square**

**New York, New York**

Mrs. Henry Morgenthau, Jr.,  
2434 Belmont Road,  
Washington, D.C.

My dear Mrs. Morgenthau:

On April 25th I attended a meeting of the American Slav Congress in Detroit, Michigan, at which were present over 2400 registered delegates. They represented every important Slav organization in the country, including civic, fraternal, professional, religious and labor groups. About 50% of the workers in the war industries are made up of American workers with Slav background. These groups also represented about 15 million Slavs in this country. This Congress was organized for the specific purpose of helping in every way the war efforts of our country.

At the afternoon session a Mr. Frank N. Isbey of Detroit, supposedly in charge of the selling of defense bonds, made an appeal. His approach to the matter, in my humble opinion, was very bad. He spoke of the sacrifices we will be called upon to make, of the thousands of Gold Star mothers we will soon have, and the graves and coffins of American boys fallen in battle. I know that it had a bad effect on the delegates sitting around me, many of whom were women.

The approach to an audience for selling bonds should be rather on the strength of saving lives, in getting the equipment out of the factories in such great quantities and supporting so effectively our war effort that we can shorten the struggle much sooner than we expect. It seems to me that instructions as to how to approach this matter should go out from the Treasury Department to all those assigned to sponsor the sale of war bonds.

I hesitated writing but I do think it is my duty to bring this to your attention in the hope that you will pass it on to the proper authorities. Please pardon my troubling you about this matter.

Very sincerely yours,

/s/ Dorothy J. Bellanca

DOROTHY J. BELLANCA  
(Mrs. August Bellanca)

DJB:am

May 14, 1942

Dear Lessing:

I am returning herewith the memorandum which you left with me last week.

I have had my people get in touch with Edgar Stern and also with Colonel Patterson, in New York, as to why Edgar Stern wasn't followed up.

Thank you very much for bringing this matter to my attention.

Yours sincerely,

(Signed) Henry

Mr. Lessing J. Rosenwald,  
Chief, Bureau of Industrial Conservation,  
War Production Board,  
Washington, D. C.

*File n.m.c.*

By Messenger *Benny 4:45*

NATHAN W. LEVIN  
570 LEXINGTON AVENUE  
NEW YORK, N. Y.  
TELEPHONE PLAZA 3-7770

April 24, 1942

Mr. Lessing J. Rosenwald:  
*3006 Railroad Retirement Bldg.*  
Re: Savings, Defense and War Bonds

In accordance with my conversation with you I am enclosing a schedule of Savings, Defense and War Bonds purchased through or supervised by this office. You will note that the total maturity or par value is divided by family groups as follows:

Lessing J. Rosenwald Group	\$	630,125
William Rosenwald	"	310,000
Marion R. Ascoli	"	455,050
Adele R. Levy	"	420,400
Edith R. Stern	"	429,500
Other Accounts		345,600
Total maturity or par value	\$	<u>2,590,675</u>

The following is a summary classified according to series and period of purchase:

Prior to 5/1/41 (Series A to D)	\$	833,700
5/1/41 to 12/31/41 (Series E, F & G)		1,385,350
1942 to date (Series E, F & G)		671,625
Total maturity or par value	\$	<u>2,590,675</u>

The following is a classification of the total by series:

A - D - Maturity value	\$	833,700
E - Maturity value		183,975
F - Maturity value		228,000
G - Par value		1,345,000
	\$	<u>2,590,675</u>

This includes purchases I have made during the past week for your children. Additional amounts may be purchased during the balance of the year for other accounts but the amount will not be large under present regulations which limits Series F and G bonds to \$50,000. In many cases it is necessary to postpone purchases of War Bonds until the new tax rates are definitely determined.

I am also enclosing a form letter sent to each of the owners of Series F and G bonds by Mr. Morgenthau on March 20. I showed you a draft of my reply

April 24, 1942

which I am also enclosing. While we probably would not care to send this letter to Mr. Morgenthau, it seems to me that the question of purchasing more than \$50,000 of Series F or G bonds out of current income was unnecessary. In order to invest more than \$50,000 in Series F or G bonds out of current income, one would have to have a fantastically large income before taxes. For example, \$300,000 of net taxable income leaves only \$50,000 and \$500,000 of net taxable income leaves only \$70,000 and a net taxable income of \$1,000,000 would leave \$120,000. Even with a net taxable income of one million dollars one could hardly invest more than \$50,000 in Series F or G bonds out of current income.

You will remember that I discussed with you the possibility of making substantial commitments in additional Government bonds if the present limits on Series F and G bonds were removed or if some other issue were floated by the Government. There is approximately seven million dollars in cash in various bond accounts in the office. After making provisions of \$500,000 each for the other members of the family for income reserves and after making other reserves, I estimate that approximately \$4,250,000 could be placed in Government bonds. This may be summarized as follows:

	<u>Bond Cash</u>	<u>Additional Government Bonds ?</u>
Lessing J. Rosenwald	-	-
William Rosenwald	\$ 2,200,000	\$ 1,400,000
Marion R. Ascoli	1,400,000	900,000
Adele R. Levy	2,200,000	1,700,000
Edith R. Stern and Edgar B. Stern	750,000	250,000
	<u>\$ 6,550,000</u>	<u>\$ 4,250,000</u>

In addition to the above, there are other accounts in the office which could make additional purchases of Government bonds. This would include the Rosenwald Family Association if it were not decided to use the cash for other purposes.

I have not discussed this proposal with any other members of the family although I expected to do so in the near future with respect to the question as to whether or not the bond balances should be retained in cash or whether or not we should continue to use the cash for municipal and state bonds. Dr. Edie and I both feel that it would be very desirable from many points of view to make no further purchases of state or municipal bonds, but to hold this cash for present or later investment in governments, especially if the Government put on a campaign to obtain funds from large investors. We realize of course that net income on these bonds after taxes would be nominal.

I think you will be interested in the attached memorandum from Mr. Juncker to me regarding subscriptions to War Bonds at a recent rally. Edgar Stern pledged a total of \$30,000 at this rally and Benay Deutsch \$1,000.

Mr. Lessing J. Rosenwald

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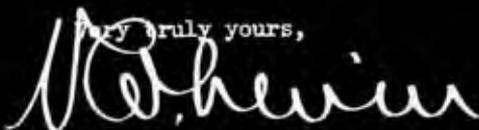
April 24, 1942

After all the trouble and expense of the rally and the contribution of various people of their time and effort to stimulate the purchase of War Bonds, apparently no record at all was kept of the pledges that were made nor any mechanics for following through on the subscriptions. To say the least it seems to me this was an awfully sloppy way in which to handle these important matters. I am calling it to your attention in case you may want to mention it to Mr. Morgenthau if you speak to him on the subject of War Bonds.

I have not replied to Mr. Morgenthau's form letter of March 20 and will await your suggestions as to whether or not any action should be taken. If you need any additional information, please get in touch with me. I would like very much to hear from you if and when you discuss this matter with Mr. Morgenthau so that I may plan accordingly.

With kind regards, I am

Very truly yours,



m1 h  
enclosures

MAY 14 1942

Dear Harold:

Thank you very much for your letter of May 11, commenting upon the material which we recently sent out to companies and firms having the payroll allotment plan for the purchase of War Bonds.

I am very hopeful from the results thus far, that the voluntary plan for the sale of savings bonds to the people will be so well received that it will never become necessary to consider seriously the abandonment of this plan in favor of a scheme of forced savings.

The payroll allotment plan for Federal agencies will, I am told, be ready for circulation next Monday.

Your interest in this important program is much appreciated.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Harold L. Ickes,

Secretary of the Interior.

HNG:fns

*File N. M.C.  
Copies to Thompson*



THE SECRETARY OF THE INTERIOR  
WASHINGTON

MAY 11 1942

My dear Henry:

I have read with interest the letter and the leaflet which you have sent to 20,000 industrial plants having the payroll deduction plan on Defense Savings Securities, copies of which you enclosed with your note to me under date of April 25.

All of us of course would like to see a big portion of the war cost paid out of voluntary bond and stamp sales. There is a question in my mind, however, as no doubt there is in yours, as to how far or for how long we could expect salary and wage earners to finance the war through systematic payments made of their own volition. I make this observation without meaning to reflect in the slightest on the will, the ability, or the patriotism of the American people. There is nothing that we won't do as a people or as individuals to win this war, but a little pressure here and a little there is inevitably necessary to maintain a well-balanced victory drive.

Your statement that the per capita employee participation based on the records of 50,000 pay rolls is \$7.50 for 45 percent of the workers is especially interesting to me when brought into comparison with Department of the Interior figures of \$8.41 per capita for 72 percent of the employees in Washington alone. An audit by bureaus, to determine field participation as well, is being made and will show that this Department as a whole is well over the \$1,000,000 mark for the seven-month period beginning in September 1941.

You can rely on me for the fullest cooperation in the present campaign among the 50,000 employees of this Department and in the inauguration of the payroll deduction plan when it is ready for installation in the Executive Departments.

Sincerely yours,

*Harold Z. Parker*

Secretary of the Interior.

Hon. Henry A. Morgenthau,  
Secretary of the Treasury.



Sales of United States Savings Bonds  
From May 1 through May 13, 1942  
Compared with Sales Quota for Same Period  
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales
	May 1 Daily to Date	May 1 to Date	May 1 to Date	to Date as % of Quota	May 1 Daily to Date	May 1 to Date	May 1 to Date	to Date as % of Quota	May 1 Daily to Date	May 1 to Date	May 1 to Date	to Date as % of Quota
1	\$ 12.7	\$ 12.7	\$ 14.0	90.7%	\$ 7.3	\$ 7.3	\$ 9.0	81.1%	\$ 20.0	\$ 20.0	\$ 23.0	87.0%
2	11.6	24.3	25.7	94.6	7.9	15.2	16.0	95.0	19.4	39.4	41.7	94.5
4	22.3	46.5	47.8	97.3	10.3	25.5	29.5	86.4	32.6	72.0	77.3	93.1
5	8.9	55.5	57.8	96.0	7.6	33.1	37.1	89.2	16.6	88.6	94.9	93.4
6	18.4	73.8	70.5	104.7	15.6	48.8	49.8	98.0	34.0	122.6	120.3	101.9
7	23.2	49.6 97.0	84.0	115.5	12.1	60.8	60.3	100.8	35.3	157.9	144.3	109.4
8	17.2	114.2	98.0	116.5	6.4	67.2	69.3	97.0	23.6	181.4	167.3	108.4
9	14.5	128.7	109.7	117.3	5.6	72.8	76.3	95.4	20.0	201.5	186.0	108.3
11	23.3	152.0	131.8	115.3	8.1	80.8	89.8	90.0	31.3	232.8	221.6	105.1
12	9.4	161.3	141.8	113.8	4.6	85.4	97.4	87.7	14.0	246.8	239.2	103.2
13	15.8	177.1	154.5	114.6	9.0	94.4	110.1	85.7	24.8	271.5	264.6	102.6
14		48.5	168.0				120.6				288.6	
15			182.0				129.6				311.6	
16			193.7				136.6				330.3	
18			215.8				150.1				365.9	
19			225.8				157.7				383.5	
20			238.5				170.3				408.8	
21			252.0				180.8				432.8	
22			266.0				189.8				455.8	
23			277.7				196.8				474.5	
25			299.8				210.3				510.1	
26			309.8				217.9				527.7	
27			322.5				230.5				553.0	
28			336.0				241.0				577.0	
29			350.0				250.0				600.0	

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

May 14, 1942.

Source: Actual sales figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. Figures have been rounded and will not necessarily add to totals.

Regraded Unclassified

## Sales of Treasury Notes - Tax Series A and Tax Series B

August 1941 to April 1942

Classified by denomination  
 (Par amounts in millions of dollars - As reported  
 by the Federal Reserve Banks)

Series and denomination	Aug.- Dec.	Jan.	Feb.	Mar.	Apr.	Total
<b>Tax Series A</b>						
\$25.....	1.8	.2	.2	.2	.2	2.6
50.....	2.5	.4	.2	.3	.3	3.7
100.....	38.2	4.1	2.0	3.3	2.7	50.3
500.....	*	.5	.3	.6	.5	1.9
1,000.....	*	.9	.6	1.0	.9	3.4
Total-Tax Series A..	42.5	6.1	3.3	5.4	4.6	61.9
<b>Tax Series B</b>						
\$100.....	3.6	.6	.3	.5	.5	5.5
500.....	8.7	1.3	.6	1.1	.9	12.6
1,000.....	82.7	12.1	6.4	10.9	10.6	122.7
10,000.....	312.1	39.8	23.2	33.4	39.7	448.2
100,000.....	817.6	71.8	48.7	74.5	108.2	1,120.8
500,000.....	171.5	19.0	11.5	31.5	34.5	268.0
1,000,000.....	1,048.0	77.0	34.0	80.0	62.0	1,301.0
Total-Tax Series B..	2,444.2	221.6	124.7	231.9	256.4	3,278.8
Total-Both Series...	<u>2,486.7</u>	<u>227.7</u>	<u>128.0</u>	<u>237.3</u>	<u>261.0</u>	<u>3,340.7</u>

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

May 14, 1942.

\* \$500 and \$1,000 denominations not sold prior to  
 January 1942.

Classification by Type of Purchaser of the Sales of Treasury Notes  
Tax Series A and Tax Series B

August 1941 to April 1942  
(Par amounts in millions of dollars - As reported  
by the Federal Reserve Banks)

Type of purchaser and month	Tax Series A	Tax Series B	Total
<u>Individuals</u> <sup>1/</sup>			
August - December...	36.3	142.5	178.8
January.....	5.4	60.7	66.1
February.....	2.9	23.8	26.7
March.....	4.9	23.9	28.8
April.....	<u>4.2</u>	<u>33.0</u>	<u>37.2</u>
Total.....	<u>53.7</u>	<u>283.9</u>	<u>337.6</u>
<u>Corporations</u>			
August - December...	6.2	2,301.7	2,307.9
January.....	.7	160.9	161.6
February.....	.4	100.9	101.3
March.....	.5	208.0	208.5
April.....	<u>.4</u>	<u>223.4</u>	<u>223.8</u>
Total.....	<u>8.2</u>	<u>2,994.9</u>	<u>3,003.1</u>
<u>Total sales</u>			
August - December...	42.5	2,444.2	2,486.7
January.....	6.1	221.6	227.7
February.....	3.3	124.7	128.0
March.....	5.4	231.9	237.3
April.....	<u>4.6</u>	<u>256.4</u>	<u>261.0</u>
Total.....	<u>61.9</u>	<u>3,278.8</u>	<u>3,340.7</u>

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

May 14, 1942.

<sup>1/</sup> Includes partnerships and fiduciaries.

May 14, 1942

## MEMORANDUM FOR THE SECRETARY:

A Supertax on Individual Incomes  
Above \$25,000

Individual incomes, after taxes, could be limited to \$25,000 by a 100 percent supertax on net income remaining after the regular income tax. The personal exemption for this purpose would be \$25,000.

The supertax would not affect persons whose incomes before deductions did not exceed about \$60,000 under the Treasury proposed rates or \$40,000 under present rates.

The tax is estimated to yield \$211.8 million (over and above the revenue from the Treasury proposed rates) from approximately 17,000 persons if joint returns are mandatory and \$174.3 million from approximately 15,000 persons if separate returns are permitted.

The effective application of such a tax would raise a number of problems.

1. Definition of the taxpayer

(a) Under the present option to file separate returns, every member of the family would be allowed \$25,000. If joint returns were mandatory, the husband and wife would together be limited to \$25,000, but each child could receive an additional \$25,000. This could be prevented by making consolidated returns mandatory for the whole family for purposes of both the income tax and the supertax.

(b) At present, trusts and estates are in some cases subject to the individual income tax, regardless of the number of beneficiaries and the income of each from other sources. The application of the \$25,000 limit to trusts and estates would work serious injustice, particularly in the case of beneficiaries whose total

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income (including their share of the trust) is relatively small. The exemption of trusts and estates, on the other hand, would permit tax avoidance.

(c) The individual income tax now applies to proprietorships and partnerships. The application of the \$25,000 limit to these groups would interfere with business incentives and encourage wasteful expenditures. A possible solution is noted in 2(d) below.

## 2. Definition of taxable income

(a) A \$25,000 limit would aggravate the problem of defining taxable income. Defects which can be tolerated under the income tax would be magnified under the supertax, and in some cases could defeat the whole purpose of the tax.

(b) To prevent avoidance by the conversion of ordinary income into capital gains, taxable income could not exclude such gains. The inclusion of gains would encourage the taking of losses and the postponement of the realization of gains and, therefore, would lead to an artificial market.

(c) The supertax would encourage the retention of profits by corporations unless provision were made for the taxation of undivided profits either to the corporation or to the stockholders. Section 102, which now imposes a penalty on corporations improperly accumulating surplus, could be implemented to prevent the more glaring evasions.

(d) The application of the supertax to unincorporated business would prevent the accumulation of reasonable surpluses for normal capital growth and business contingencies. The option of incorporation offers little relief. The supertax could be confined to owners' withdrawals from the business, with provision for reasonable surplus accumulations.

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(e) The application of the supertax to State and local interest would amount to the taxation of such interest under the regular income tax. In the absence of similar treatment of wholly-exempt Federal securities, present holders would enjoy a windfall, either in the form of exemption from the supertax or in the form of capital gains, resulting from the sale of their securities to those subject to the supertax.

(f) For all those subject to the supertax some charitable contributions would be costless; they would be made at Government expense. Unless such contributions were limited (for example, to amounts contributed in preceding years) the resulting income tax revenue loss might exceed the yield of the supertax.

(g) Since State income taxes are deductible in arriving at taxable income, States could increase their tax rates applicable to the upper income brackets at the expense of the Federal Government, without burdening their residents. The limitation of deductions to taxes due under laws in effect on January 1, 1942, may be desirable.

(h) Special provisions would be required to prevent abuse of pension trust devices and depletion allowances and to minimize injustice to persons receiving high incomes for services rendered over a period of years.

### 3. Relief for fixed commitments

The supertax would make it difficult for some individuals to meet such fixed commitments as life insurance premiums, mortgage amortization, non-business leases, contributions pledged to charity, subscriptions for stock, instalment purchases of business property, and obligations to make payments for alimony, support of relatives, and for annuities to servants.

The case for granting special relief for fixed commitments is weak. Present law permits interest on debt to be deducted in computing taxable income; therefore, those subject to the supertax could refinance their fixed commitments without a net interest cost to themselves. The problem of heavy insurance premiums could be met by the rearrangement of insurance contracts. To cases of real hardship, a Government lending agency could be authorized to extend credit facilities.

MAY 14 1942

Dear Mr. President:

In accordance with the request in your personal and confidential memorandum to me of May 7, 1942, with respect to the Chicago Tribune matter, I am enclosing a memorandum and a summary thereof stating the facts. The memorandum concludes that the implications of impropriety are without foundation.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Enclosure.

HC/fn  
5/11/42

*File 71111  
Please see initials refer to Mr. Hoover's office  
Delivered by S. S. Agent 3:20*