

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



May 23, 1942

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

Dear Henry:

The attached is an analysis
of German home propoganda for the period
May 13 to May 20.

Sincerely,


William J. Donovan

SECRET

COORDINATOR OF INFORMATION

1. Primary propaganda themes within Germany:

A. Homeland must be worthy of front, cheerfully producing weapons bearing burdens. Be more polite. Magnificent German women can work harder. Farmer can deliver more. Anti-inflation drive growing. B. Negative: Ban on forecasts of general offensive or of expected results this summer. C. Kerch victory exploited surprisingly little. Only two commentators (Fritz Theil, May 16 and a colonel, Chief of Staff of Army Corps, May 18) allowed forecast cautiously: Theil "Capture Kerch...prelude greater events". But same day Theil took precautions, referring British "commitment policy" saying "Listeners familiar Churchill's method asserting Germany has certain aims, which of course in fact she has not, so that he can construe German success into failure."

2. Bans down in handling treatment given Russians, front reports included German pilots telling how they tried kill Russian pilot parachuting earthwards.

3. Front report May 13, killed by DNB, after circulation and broadcast, referred "Bolshevik resistance flares grimly, serious situation Kerch". Apparently Kerch offensive meant be shown as lightning advance against weak opposition.

4. Main line internal party propaganda appears based on Gauleiter Wagner speech Heidelberg meeting political leaders May 10: "Brave soldiers assured party backs them, will prevent political forces spoiling what army achieved. We must be hard with ourselves, others. We political leaders must set good example."

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Nation always destroyed solely through leaders weakness. We must endure restrictions daily life".

5. Propaganda ministry refrains claiming credit for lull RAF attacks, no mention German retaliation as cause therefore, gives publicity German qualitative rather than quantitative air supremacy in West. Airplane FW 190 given most publicity linked with increase publicity German scientific research.

6. Probably important significant policy change indicated when Deutschlandsender May 16 reported Roosevelt's Lend-Lease delivery statement (\$600,770,000 in April, grand total 3.8 milliard dollars March 1941 to April 1942). That this no accident seen in Das Reich May 10 article discussing "record United States budget--present United States expenditure twice that of British. Before end 1942 United States would be spending three times daily as last war". Note: Suggested explanation is that these facts show we already making vast efforts with apparently little result; also they might remove fear American vast resources not yet thrown into war scales.

7. In addition number 6, home propaganda may be undertaking attack directly U.S. production capacity. Das Reich May 10 two page article "Land Der Bergrenzten Moglichkeiten" and additional article same issue subtitled "Das Ende Amerikanischer Lebensart". It is expected further use will be made American rationing, raw material shortages.

8. No concealment American deliveries to Russia. One method of dealing with far-flung American

activities, BBZ article May 16, "U.S. squadron forced operate six thousand kilometers from home".

9. Intensive attacks on American unculture and exposures weak internal position probably caused by return 605 Germans from U.S.

10. New high point reached identification America with Jews. Great stress on Roosevelt's war guilt and all-pervading Jewishness of America. PWE explains by fact many Germans unable understand why Hitler declared war on U.S. One object this line is to show Hitler had no choice.

11. Apparent standard directive home propaganda to show only allied successes are gained at each others expense: America takes British colonies, North Ireland; England grabs Madagascar; Russia takes Britain's middle eastern spheres.

12. Important: German home propaganda said practically nothing about Martinique; mentions France slightly, non-committal.

13. Interesting note: "Europe in Battle" radio reports 7:15 PM gave features in this order: Slovaks fighting on Russian fronts May 14; Rumanians fighting there May 15; Finns, on May 16. Italians got fourth place May 18 followed by Croats on 19.

14. Incidental intelligence: Die Woche, not warned about Madagascar, published illustrated feature showing Island's resources, value to Japanese, on April 29.

15. The word "Demokratie" allowed be used

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in proper sense by Professor Lacroix in speech April 21 at Rafolfzell in Wintervortrag of Volksbildungswerk. Following line recently revived by Goebbels in Das Reich, Lacroix said "ERST HITLER HAT DIE ERSTE UND EINZIGE DEMOKRATIE DER WELT GESCHAFFEN, DIE AUS DEN VOLKE SCHKECHTGW GEFORMT IST". Term still used as abuse but seems likely charms totalitarianism no longer great enough permit total scorn for whole concept Democracy.

16. Anniversary Hess's flight unmentioned.

17. Berlin Victor: B. May 1, lead story titles "DIE NIEDERTRACHTIGSTE LUFE DIESES KRIEGES" deals with alleged Boston broadcast quoting Rosenberg "Poorest part population most hit air raids, is no particular value to State". This exposed, discredited, as "Dirty trick and favorite artifice" of American propaganda. Note--this famous quotation, says PWE, comes in article by Major Suchsland in review probably sponsored by Rosenberg in 1936.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 169

Information received up to 7 A.M., 23rd May, 1942.

1. NAVAL

Barents Sea. It is reported that on the 14th a Russian Submarine sank a Destroyer and that Russian Aircraft damaged another which is believed to have sunk later. On 16th Russian Naval Aircraft are said to have sunk a third Destroyer.

2. MILITARY

BURMA. Chinese Front. The Chinese force in Northern Burma is withdrawing towards China through the hills of North of Myitkyina. On Burma Road Front: No change. Around Kengtung, the Chinese withdrawal into Yunnan continues under enemy pressure. Japanese occupation of Fort Herz is not confirmed.

3. AIR OPERATIONS Western Front. 22/23rd.

27 Bombers were sent to St. Nazaire and 18 others sea mining all returned safely. Heavy cloud hampered operations at St. Nazaire but the sea mining was carried out successfully.

MALTA. On morning of 22nd. 20 Messerschmidts 109's crossed the coast and 4 of them attacked Hal Far. One was shot down by Spitfires.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 170

Information received up to seven A.M., 24th May, 1942.

1. MILITARY

Nothing of importance to report.

2. AIR OPERATIONS

WESTERN FRONT. 23rd. Eleven squadrons of Spitfires carried out a sweep over Northern France, one enemy fighter was destroyed and five were damaged. Two Spitfires are missing. Eight enemy aircraft flew over this country, one Heinkel bomber was destroyed.

MALTA. Between five twenty P.M. 22nd and two fifteen P.M. 23rd seven bombers and forty-eight fighters flew over the Island, four aircraft were destroyed and six damaged. Two Spitfires were damaged.

LIBYA. 21st and 22nd. A total of 35 of our bombers and 50 Kittyhawk fighters, some carrying bombs, successfully attacked camps at EL TMIMI and landing grounds at MARTUBA. On 22nd our fighters engaged twenty ME 109's destroying one and probably destroying another. We lost 3 Kittyhawks.

CRETE. Night 19th/20th. Eight Wellingtons, one of which is missing, bombed HERAKLION aerodrome.

May 25, 1942
9:05 a.m.

TAX PROGRAM VERSUS WAR BONDS

Present: Mr. Graves
Mr. Sullivan
Mr. Bell
Mr. Haas
Mr. Paul
Mr. Blough
Mr. Kuhn
Mr. Tarleau
Mrs. Klotz
Mr. White

H:M:JR: Have you got that table for me? Could I see it, because I see that Mr. Bryant of the Wall Street Journal has a table, too. (Mr. Blough handed chart to the Secretary) If you deduct your income tax and your War Bonds and your pay-roll tax - you don't do both, do you? Isn't he wrong?

MR. BLOUGH: He is wrong on his pay-roll thing.

H.M.JR: I mean, you can't do both.

MR. BLOUGH: Yes.

H.M.JR: But pay-roll tax - you get a credit against your income tax?

MR. BLOUGH: No, they are separate and distinct.

H.M.JR: I mean, you pay ten percent and--

MR. BLOUGH: That is three percent.

H.M.JR: Three?

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MR. BLOUGH: Three times sixteen is forty-eight.

H.M.JR: Is that his social security?

MR. BLOUGH: As a matter of fact, it is only one percent, it is only sixteen dollars. That is all that is really taken out.

H.M.JR: Is that wrong then?

MR. BLOUGH: I haven't read the article, so I don't know. He may be including some increases which have been recommended. He is including the Administration recommendations to triple social security pay-roll taxes.

(Mr. Blough referring to table)

This does not take that into account. Single person, no dependents - annual wage of these various levels, reduced to weekly wage by dividing by fifty. Social security deduction at the present time is one percent, so that is twenty-four cents. This is the level. The income tax withheld at its source would be ten percent on all amounts over eleven dollars for this fellow; that would be one dollar and thirty cents; the two combined, one dollar and fifty-four cents, and ten percent of wages as a Savings Bond quota would be two dollars and forty cents. Total deduction for taxes and bonds, three ninety-four, and then down here you have it in terms of percents of the income effective rates. That, then, is married, and this is single, no dependents; the next sheet is married and no dependents, and then there is a third sheet, married and two dependents.

H.M.JR: I will work with this.

MR. BLOUGH: I have some copies if you wish them.

H.M.JR: What the purpose of this is, I talked with Bell and Graves, and Mr. Graves told me over the telephone Saturday that with the recommendation of the Treasury for withholding tax our War Bond program would be a failure. In view of the seriousness of that statement, I thought

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we had better get together bright and early, and in preparation for that I asked to have these things prepared as to how much the various items would take.

The President did the same thing twice on me. He did it Friday morning when I was with him alone, taking a two-thousand-dollar family, and then he did the same thing in Cabinet. He thought the thing was that we were hitting that group too hard. He did it twice in the same day, and the only result of that was that Jesse Jones brought up the question of giving a credit to people in debt, and that seemed - to those who wanted to pay off their debt, and that seemed to strike a sympathetic chord all around.

MR. SULLIVAN: That was at Cabinet? I got it Saturday.

H.M.JR: Friday afternoon.

MR. SULLIVAN: Knox and Tydings, they crawled all over me, and I didn't know that you had taken the position--

H.M.JR: Well, I didn't take any position, because I have got somebody representing me on the Hill. I don't take a position until I talk to them about it. Otherwise, we couldn't get very far; but I see that Walter George spoke about that - I think it was on the debt thing. I think he came out Thursday.

Well, what I would like to do would be if you (Paul) would take the positive position on this pay-roll thing, and then let Harold argue with you - I mean, I would like to listen, and I promise to chime in occasionally.

MR. PAUL: Well, of course, on the item of - I don't know whether you want to consider the practical end of it first before you make the arguments - on the practical end, they are going to vote on it this morning.

H.M.JR: I see.

MR. PAUL: Our three principal arguments for collection at the source have been that with such a large number

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of taxpayers, twenty-eight million, low incomes, subject to tax, it is a great convenience to the taxpayer to have it collected at the source; second, that it has a very great control effect on inflation to make advance collections; and third, that you collect more money that way. You collect more money in that you collect at the source, and therefore get some money from a lot of people who otherwise would never pay any tax, and you couldn't administer the tax and get those payments. Well, so far as this problem is concerned of tying into the voluntary savings program, it seems to me there is a lot of misapprehension. I talked with Admiral-what is his name?

MR. GRAVES: Conard.

MR. PAUL: At first he thought we were trying to withhold at the rate of ten percent. We are not, because we give an exemption, we withhold on a net basis, and the withholding actually comes to about five, five to six percent. So that there it seems to me a matter of education, and it doesn't seem to me that fifteen percent, aside from social security withholding at this time, with rationing going in, is going to be more than the public can stand.

At any rate, so far as collection at the source is concerned, it does seem to us that practically the future of the income tax is wrapped up in that device in the sense that if you don't - as soon as you get from a rich man's tax to a general poor man's, or everybody's tax, you have got to have it. The tax simply won't work out. Now, I think - another thing to be borne in mind is that this won't go into effect until about the first of the year, because the Bureau - the attitude of which toward it can only be described as extremely apathetic - won't get into operation before the 1st of January, the way things look now.

H.M.JR: Well, I just am making - for the record, the thing that always bothers me every day is that I make so many decisions, and luck has been with me. I don't think I made too many mistakes, but this thing, what happened was - I mean, just to review the record, I told Graves - we originally proposed--

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(Mr. White entered the conference.)

H.M.JR: Harry, we are talking about the pros and cons of the withholding tax. The original proposal was that we would ask for a one to ten percent discretionary tax, discretion resting with the President and with the Secretary of the Treasury. Then Paul came to me and said that he thought that the fight would center on giving the President and myself discretionary power rather than a withholding tax, that he recommended that we go for the ten percent and forget the discretion. Is that right?

MR. PAUL: That is right. In addition to that, what I said to you then - I think there is the additional reason that you said in your message of March 3 something to the effect that since we do not know what the inflationary picture is, as you didn't know March 3 - you certainly know now that it is a very dangerous picture, and if you had the discretion, assuming Congress would grant it - and they wouldn't without a long fight - if you had it, you would be on the spot to make the ten percent, so I think that the difference is highly academic.

H.M.JR: Well, to finish my thought, where I made a mistake, and where I blame myself, is when I said, "All right, go to ten," and I didn't give everybody a chance to get in on the discussion. I gave you a horseback opinion. What bothers me now is this whole question of the timing. Now, I didn't know that you couldn't put this in until the 1st of January. It is the first I had heard that. The last time we talked about it, it was July 1.

MR. PAUL: It is going to take the Bureau three months to get the plan in operation. If the bill isn't passed until September 1st, it won't go into effect until December--

MR. SULLIVAN: No, I don't think that is so.

MR. PAUL: That is what Helvering said.

MR. SULLIVAN: I know it will take three months, but as soon as the House votes on this thing, and we have an

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idea of the rough outline on it, we can then start.

MR. PAUL: But, you can't hire any people until it is in the final bill. You have got to hire ten thousand people, according to the Bureau.

MR. SULLIVAN: Eighty-five hundred.

MR. PAUL: They have put it up since then. You can't hire any of those people. You can plan it, you are quite right.

MR. SULLIVAN: I think, Mr. Secretary, there are two possible ways out of this. One is reducing the rate, which I would be loathe to do. I agree entirely with everything Randolph has said about withholding tax, except I don't feel that the future of the income tax rests solely on the adoption of withholding. But I feel this way, sir, that you can reduce the rate from ten percent to five percent, which I would be loathe to do, or you can announce--

(Mr. Tarleau entered the conference.)

MR. SULLIVAN: I think if it were announced today or tomorrow that it is contemplated that there will go into effect, say, November 1st, and perhaps written into the bill that it will take effect November 1st, that brings the date when this first goes into operation--

H.M.JR: What date did you say?

MR. SULLIVAN: November 1st.

H.M.JR: And you are known around this Treasury particularly for what quality?

MR. SULLIVAN: Promptness.

H.M.JR: I know, but out of your many good qualities?

MR. BELL: Think up a good one.

MR. SULLIVAN: I don't know what you are driving at.

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H.M.JR: Let's got over it once more slowly. What date did you suggest?

MR. SULLIVAN: November 1st.

H.M.JR: And that doesn't bring anything to your--

MR. BLOUGH: He means the 15th, Mr. Secretary.

H.M.JR: What day is election day?

MR. SULLIVAN: I should think it would be about the fourth, isn't it?

MRS. KLOTZ: He got you.

MR. SULLIVAN: Of course, he got me flat-footed; it never entered my mind at all.

H.M.JR: You have been away from New Hampshire too long, boy.

MR. SULLIVAN: Yes, but I would have had a call before noon if I had slipped. What I am driving at is that as long as the date when it first takes effect is not more than six months ahead of March 15, you are bringing together the time when you take the money away from them and the time when they receive the benefit of them. Now, once you get over that hump, I don't think that this is going to interfere with bond sales. For instance, if this goes into effect the 1st of November, or the 15th of November, then your bond sales in March and April are going to be much better than they would be if you don't have a withholding tax.

H.M.JR: Well, politician Paul mentioned January 1st. What are you fighting with him for about it?

MR. SULLIVAN: I am not fighting.

MR. BELL: Only a month and a half.

H.M.JR: Politician Paul says January 1st.

MR. SULLIVAN: Well, an announcement to that effect, I think, would completely cure this situation, at least for the time being, and give you your fair chance to make June and July quotas, don't you, Harold?

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MR. GRAVES: No.

MR. SULLIVAN: You mean if it is announced that they are not going to hold out anything in wages in the year 1942?

H.M.JR: Go ahead, Graves.

MR. PAUL: There's another thing I ought to--

H.M.JR: Do you mind? I mean, I am being wonderful, I am bursting, but go ahead, Graves.

MR. GRAVES: Well, answering John's question, I think any announcement at this time that there will be a withholding will have an adverse effect on bond sales under the pay-roll allotment plan immediately.

H.M.JR: Under what plan?

MR. GRAVES: Under the pay-roll allotment plan, bond sales under the pay-roll allotment plan, which is, of course, the largest, by all odds, factor of our program. Any announcement now that there is to be a withholding, either in the form of taxes or compulsory savings, or any other form, so long as it comes off the pay roll, is going to have an adverse effect at once on this bond drive.

MR. SULLIVAN: That has already been made, hasn't it, Harold?

MR. GRAVES: No. The thing stands tentatively at the moment. All that has been said is that the Treasury has recommended such a--

MR. PAUL: Well, the recommendation is about to be voted on this morning, but have you this in mind, too, Harold, that this really is an advance collection of '42 taxes?

MR. GRAVES: Yes, I have it in mind, and we sent out a wire on Friday to all of our state administrators, calling that especially to their attention, because this is a thing that is apt to be much misunderstood, and a thing which I think has been much misunderstood, but I don't think that meets the point.

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I think if you were ever to have a withholding tax, we will say an advance payment of income tax, such as this, that at once cuts into bond sales on the pay-roll allotment plan. I mean, when it becomes effective it can't help but reduce very substantially the amounts that employees will permit to be withheld from their pay toward the purchase of bonds. I think that goes without saying, almost.

Now, as to the effect that is to be had upon bond sales in these months by an announcement now of such a withholding tax, to be effective the 1st of January, the effect will be - just how much it will be, I can't say, as we are just in the middle of promoting this pay-roll allotment on a much intensified scale with employers and employees; and I don't think that you can expect anything like the cooperation from either group that we are now getting if they all know that in a matter of months there is to be this withholding tax.

MR. PAUL: I want to make it clear that this puts taxpayers in a more solvent position so they can buy bonds. This is not a withholding tax.

MR. GRAVES: We understand that, but the people that are involved here are not so apt to understand it. I am afraid all they see in this is a withholding.

MR. SULLIVAN: Well, Harold, in these intervening months would you be better off if it were just left indefinite and nobody knew when these withholding taxes were to become effective, or do you think you would be better off if it was stated they would go into effect on January 1, 1943?

MR. GRAVES: Well, I suppose we would be better off if the thing were left indefinite. I would like, Mr. Secretary, to say this. I don't think there is much room for argument about this. I would hate to be in the position of arguing against this proposal. All I am saying is that if you have it, you destroy, in my judgment, whatever chance we might otherwise have had to reach these quotas that we have set for ourselves. It is inevitable that there will be such reaction on the part of the employers who have got to enforce this tax, as well as to collect our allotments under the pay-roll allotment plan - such a reaction on the

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part of the employee groups, that, in my judgment, we could not be expected to reach these quotas.

H.M.JR: Well now, Harold, I make a public apology for not consulting with everybody in the Treasury before I said, "You have to ask for a fixed ten percent" as against making it one to ten, but the one to ten has been on the books, so to speak, ever since I made my speech.

MR. GRAVES: That is right.

H.M.JR: And I mean, I made my talk on March 3, I think it was, and today is May 25, and Saturday was May 23 or 24, and now suddenly you come along and for all you knew it might have been one percent, or it could have been anything.

MR. GRAVES: Or nothing, because as the matter then stood, as I recall, that was to be discretionary with the Secretary of the Treasury.

H.M.JR: These boys here - wouldn't it have had to be one?

MR. WHITE: Up to ten.

MR. PAUL: It would have had to be something, I should think, and practically now it would have to be ten you would be--

H.M.JR: No. Wasn't the argument I used that we would put in one in order to get the machinery going?

MR. WHITE: That was the understanding.

H.M.JR: I think my testimony read that way. I said we would put ten percent in in order to get the machinery going.

MR. TARLEAU: You indicated at the public hearing that you thought it might be advisable to start at that time with a low rate in order to get the machinery going.

MR. SULLIVAN: I think that was in cross examination rather than in the formal statement.

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MR. TARLEAU: That is right; it wasn't in the statement, but it was in the Secretary's public appearance. Isn't that right, Roy?

MR. BLOUGH: Yes, the statement itself, as I recall, indicated that the beginning would be at the discretion, and the rate at which it was held would be at the discretion, but in the cross examination it was brought out that it might be desirable to start at a low rate in order to get the machinery going.

MR. HAAS: May I make a comment, Mr. Secretary?

H.M.JR: Yes.

MR. HAAS: I think Harold is right, that not a withholding tax, but any tax will affect bond sales. I think Randolph Paul is right. I think the conflict between taxes and the voluntary plan has got to be resolved. There is a fundamental weakness in the program. I think something in addition will have to be done if you are going to continue the voluntary, and there are several plans that I think ought to be looked into very carefully.

One is, if you put a tax, progressive tax, on expenditures, and allow bonds as an exemption in the payment of debts and exemptions, insurance premiums, and so on, it will put a stimulus to buy bonds and will allow the tax program to go ahead as it should as a tax program. I think without that you have got this conflict, and if it is not resolved then something, as I suggested, has to be put in to make the thing fit. There is no coordination in the motivating force.

That tax on expenditures is one item. What it really amounts to is a progressive sales tax when it is analyzed, but it will make possible to continue, it will give stimulus to continue, the voluntary system, and it will make possible to continue a tax program without conflicting all the time with the bond sales. Now, that is one plan. There are some other plans, but I think obviously there is something in addition - something fundamental that is needed in addition, or otherwise you will have to abandon the voluntary plan.

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H.M.JR: Well, I want to say this, and I am saying it in the room here, I am sorry to hear Harold - I may be using an unfortunate word, but I am going to use it - alibi for the volunteer plan. I am saying it in the room here. I don't want anything repeated outside of this room. Where nothing has happened - you can come back at me as hard as you want to - as to the foundation of our approach in raising this money - I mean, the foundation was just as solid when you and I made the quotas; the only difference is now we are talking ten percent instead of a possible one. But when we said we were going to do six hundred, eight hundred, and a billion this thing certainly was in the cards. Now you come along and tell me you can't make it. Now, if that is unfair, if it isn't true--

MR. GRAVES: I don't think it is correct. It certainly is not as I recall. Perhaps you remember most of the people that are now here were in the group at the time when we were considering starting off with these quotas; that same suggestion was made then that we start off with one percent, and I objected at that time to starting off with one percent. You remember that, Dan; other people objected, too - I think Mr. Kuhn and Mr. Odegard.

H.M.JR: Dan doesn't say he does or doesn't.

MR. BELL: No, I don't remember. I am sorry, I was waiting until he finished his conversation.

MR. GRAVES: I objected to that suggestion. You made it some six weeks ago in a conference with substantially this same group. You went around the room and asked for everybody's opinion. When you got to me I said I didn't feel that we should do anything at all toward a withholding tax, even one percent, and I was supported by Mr. Kuhn and Mr. Odegard, and I think Mr. Sullivan.

MR. SULLIVAN: I wasn't present, Harold.

H.M.JR: Who do you mean, Kuhn and Odegard? Do you want Kuhn in here, because these boys look kind of blank?

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MR. GRAVES: I remember Dan was here.

MR. BELL: I can't remember.

MR. GRAVES: Harry was here.

MR. SULLIVAN: Was that the meeting where it was discussed whether to have forced savings or not?

MR. WHITE: I think I remember the meeting. I am sorry, I just don't remember.

MR. BLOUGH: I thought it was forced savings and not the taxes we were talking about.

MR. SULLIVAN: I think you had another one the next day.

MR. GRAVES: Perhaps it was forced savings, but this is forced savings we are talking about.

H.M.JR: No, no.

MR. GRAVES: Yes, this is a form of forced savings.

H.M.JR: No, it is an advance payment of your tax. It is quite different.

MR. PAUL: No, it isn't; nothing goes back--

MR. GRAVES: The principle is forced savings.

MR. BLOUGH: The reason I didn't bring up the savings program when you suggested going to ten percent was - you may have been using an idle word, Harold - I wouldn't want to hold it to you at all, but I have been trying to keep that in my mind as you went along here, and I remember you said once when we were talking about this, "Put on as much tax as you want to; put on as much withholding tax as you want, but don't put on forced savings."

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(Mr. Kuhn entered the conference.)

MR. GRAVES: That is an entirely different matter. I was there comparing, in my own mind at any rate, the relative value of savings on the one hand, and taxes on the other; and I have said, as far as I personally was concerned, I would rather see this thing taken out in taxes. All I am saying now is that you can't do both.

MR. BLOUGH: I am sorry if I misunderstood, but I thought you were talking about the other.

H.M.JR: Kuhn, can you remember in any of these meetings when we were discussing the quota that Graves came out opposed to the withholding tax?

MR. KUHN: He came out opposed to any system that would cause the employers to put in two sets of payroll deductions. That was the basis of Harold's objection to compulsory savings, that the moment you asked the employers to install a compulsory, universal system of deductions, the present voluntary system would go out the window.

H.M.JR: Yes, but I went ahead with my speech on March 3, recommending the discretionary one-to-ten-percent withholding tax and we made our quotas after that.

MR. GRAVES: This discussion was after that.

H.M.JR: Well, if it was, it was sort of after the horse had left the barn.

MR. WHITE: If the discussion was as Ferdie states it, I am not sure that I had both views. I remember that discussion very clearly in which you (Graves) objected definitely and clearly to the introduction of compulsory savings on the grounds that it would kill the voluntary savings.

H.M.JR: That I can remember.

MR. WHITE: That I remember, and I remember one of the arguments you used was that if you put that

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on the pay roll it would be difficult to get volunteer savings. I don't know, and it seems a little bit meaningless to hold that you would have two deductions, both a voluntary deduction and a compulsory deduction of the pay roll. I thought what you referred to was your general program of selling bonds on a voluntary basis would be seriously interfered with on a compulsory basis. I remember that discussion very clearly.

MR. GRAVES: Of course we are now talking about two deductions that are to come off the pay roll. There is the deduction for bonds which is voluntary, and then there is this deduction which is compulsory, and the principle is there just the same. Ferdie, I went so far as to say, before you came in, that the suggestion had been made that we start with a compulsory deduction of one percent and that I objected on the grounds stated by Harry just now, that a compulsory deduction and the voluntary withholding simply are not compatible; that you can have one or the other, but not both; and that the amount was relatively unimportant.

MR. KUHN: You were thinking of the effect of it on the employer, not on the worker, not on the man who was making the savings.

H.M.JR: Let's look up the record. I am just interested. But let me - I didn't mean to cut you off, Ferdie, but he has to go on the Hill.

MR. PAUL: Ten-fifteen.

H.M.JR: Let me put it this way. I want to get somebody to state for me, because I never read Helvering's memorandum-Sullivan, can you very briefly state what are the pros and cons and the difficulties? What was Helvering's objection to this pay-roll deduction plan, and how did you overcome his objections, and what did he say? I mean, can you do it in two or three minutes?

MR. SULLIVAN: Yes, sir. The Commissioner sent you a lengthy memorandum setting forth the cost to the Bureau of a withholding tax. In that same memorandum he also set forth, for each year for the last ten years, I believe,

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the amount of money we had lost in taxes because the taxpayers were not in funds to pay the taxes. That list represented tax liabilities which never were paid. The memorandum showed that the cost of administering the withholding tax exceeded the amount of unpaid tax liabilities.

I think the Commissioner felt that one of the reasons why we, over here, were in favor of a withholding tax was that through a withholding tax we would collect money we would otherwise lose, and, hence, would be ahead of the game. From his memorandum it is pretty clear that although we will collect money that we would otherwise lose in taxes, there will not be a net saving, but rather a net loss.

H.M.JR: You gentlemen explain that to me.

MR. SULLIVAN: You sent the memorandum to me and asked me to take it up with the Commissioner, and I did so, and I explained to him that the reason we wanted a withholding tax was because of its value in helping to combat inflation and that we felt so strongly about it that we would be willing to take a net loss on the operation in order to help in the fight on inflation.

Now, I haven't any misgivings about the ability of the Bureau to administer a withholding tax. There are going to be many trying problems, but there are in every new kind of a tax; and I am convinced that if we can get a priority rating so that we can get people and train them and hold on to them, we will be able to handle that problem. When we have solved it I think it may lessen the burden in other types of tax work we are now doing. I have no misgivings about the Bureau administering the tax at all.

MR. WHITE: You made a statement very disturbing, if you meant it. You are certainly going to get the opposite. Do I understand that it is going to cost you more to collect the withholding tax than what you get in the withholding tax?

MR. SULLIVAN: No, no.

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H.M.JR: Let me explain. What the whole thing was, Harry, that bothered me, they claim that each year people who didn't pay any tax, that you didn't reach - I think the figure was a million and a half dollars.

MR. SULLIVAN: No, my recollection is we lost about ten or eleven million, and it would cost about sixteen and a half to collect.

H.M.JR: That is the point, and we are talking about several billion dollars worth of taxes.

MR. WHITE: I misunderstood.

H.M.JR: We are talking about collecting a couple of billion dollars worth of taxes. Have you got it now?

MR. WHITE: I have it clear.

MR. PAUL: Of course that figure isn't to be compared with what it would be today because then we had less taxpayers on the list and--

H.M.JR: Let me ask you a very frank question. How do you think they are going to vote on it this morning?

MR. PAUL: I think they are going to vote for it if we will indicate our willingness, as I have said on the stand we would, to exclude domestic help and farmers on the ground that it isn't practical to include them at this time. Therefore, they should be excluded for the moment, just like in social security. That takes a load of about eight hundred thousand taxpayers off the list, and I think there will be an almost unanimous vote in the Committee this morning on that.

H.M.JR: You mean to exclude those?

MR. PAUL: They will want to exclude - in fact, that is what will probably make it a fairly even - change it from a fairly even vote to an almost unanimous vote.

H.M.JR: Going back to what you said in the first part

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of the discussion, would it be very difficult to have it come out that this will not be put into effect until January 1?

MR. PAUL: I don't think so. Do you, Tommy?

MR. TARLEAU: I just came in right in the middle of things. I rather hesitate about it unless it is absolutely necessary, and it may be necessary for other reasons to announce a January date, because, in the first place, we have certain hesitancy in the Committee to adopt this proposal. They are willing to go along, although a lot of them don't like to put the thing in. If you can indicate that thing isn't going to go into effect until next year, there is going to be some hesitancy because of the fact that between January 1 and March 15 you are not going to get very much of the advance collections. If we start around November, you might get some of it.

H.M.JR: Look, Tommy, you are talking good technical tax, which, for the minute, doesn't interest me, and I will tell you why. Again, very much in this room, I want to be practical. It is too late to discuss the pros and cons of withholding taxes. I made my speech; it is there. I can't between now and ten o'clock reverse my position, but I can do this; I am more interested that we get a Democratic Congress than I am in inflation, or anything else, as far as domestic, internal, economic, political situations go. I mean, to me that, domestically, is more important than anything else, and it just makes common sense to me that if you should have this thing hit these people before election it will hit them like a ton of bricks and it may be very harmful to our Democratic Congressmen coming back. Therefore, I will put it on straight political grounds, or, if you want to be noble about it, so that Mr. Roosevelt can carry on for the rest of his term, I strongly recommend that this doesn't go into effect until January 1, Randolph - strongly.

MR. PAUL: Well, the only question was - that can be done - the only question is whether you make an announcement

at this time--

H.M.JR: This is the whole purpose.

MR. PAUL: They will leave the practical matter entirely up to Helvering. They will never press Helvering for it.

H.M.JR: I want a January 1 date. I want these people who are lax - I mean, if you can't do it easily, I can do it any way of two or three ways, but I want - when this vote is taken, I want it to come out publicly that the thing will not be put in effect until January 1.

Now, I have thought a lot about this thing over the week end. John, do you question my wisdom on that?

MR. SULLIVAN: No, I am for it. Tommy, I don't think you were here--

H.M.JR: Harry, do you question that from a political standpoint?

MR. WHITE: I think certainly that is preferable to setting a date before January 1. I don't know what the possibilities are. There is another possibility, and that is not to push it at all and let them kill it if they want to, and then bring it up again in the late fall. I don't know whether it is politically possible.

H.M.JR: Of course that would please me, but I didn't want to - I mean, we have done this thing, and I don't want to - I mean--

MR. WHITE: It is a question on how hard you push it, isn't it?

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MR. PAUL: No.

H.M.JR: I would feel that Paul would have a right to feel I was letting him down.

MR. WHITE: I don't think that is very important, myself. I don't think that is as important as other things.

MR. PAUL: No, only you will have to get somebody else to put through the rest of your tax bill.

H.M.JR: It is that important.

MR. SULLIVAN: There are political consequences of quitting cold on this thing now when--

H.M.JR: I didn't say--

MR. SULLIVAN: I know, but Harry's point--

MR. WHITE: I haven't explored it.

H.M.JR: I want to make it awfully clear - I didn't suggest that--

MR. SULLIVAN: I was answering Harry.

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MR. WHITE: I don't know that those are the alternatives. Certainly you men have enough political experience to know that Congress isn't enthusiastic about an additional imposition of taxes of this kind; and it is a little bit specious to say they are not paying more, that they are only paying in advance, because you know very well they reach the stage where they pay - for one year they pay almost double. So they will make much of that argument.

I say this without knowing much of what is going on in the Committee, not knowing much at all, but on the general assumption that they are not enthusiastic about much higher taxes, that if you can maintain your position without pushing it - it may be possible that it will be defeated because I just heard you say something about half being either way, some on the fence; and if it is so close as that maybe it all depends on your behavior, whether they just defeat it.

Now, if they just defeat it, it may well be that you can come back in the fall. You asked for it and it was defeated, and you are going to ask again; it is more urgent. I don't know whether that is a possibility. I was merely suggesting it; but certainly if that is not a possibility it is preferable to have it January 1.

MR. TARLEAU: Let's settle for January 1.

MR. WHITE: This is not bargaining. It is a question of deciding what is best in the larger interests. That is why I don't take much stock in Paul's saying somebody else will have to push the bill, because I am sure that he would modify his position in the light of what he thought was in the best interests of the country.

MR. PAUL: I would, myself, yes, but I would become useless up there.

MR. TARLEAU: January 1, says the Secretary, and I--

MR. WHITE: This is not a question of a bargaining arrangement; it is not a compromise. It is a question

of seeking what is in the best interests of the situation.

MR. TARLEAU: On the question of the alternative, I believe, and I think Randolph believes, and I think Roy believes, looking at it from our own narrow base, that the institution of withholding system is a very essential part of our tax program. If you get defeated now you are not going to get it in the fall. They will not go through this scrap all over again.

MR. WHITE: You may be so close to the woods that it is a little difficult to get a perspective on the larger aspects. You say you are considering it from a narrow base; you don't want us to consider it from a narrow base.

Do you feel you have explored the matter? Do you want to reexamine it and see what are the other possibilities, because I am also very much in agreement with what Harold said and what George said, that it will affect the voluntary bond program. I don't think there can be any possible doubt of that. I also think that the mere announcement will have some effect; how much I don't know. But the fact that you may have acquiesced to a one to a ten earlier is not significant because it didn't receive the public discussion this is going to receive. It didn't receive the public attention that it will receive if the thing is passed and there is announcement that people have to pay ten percent for their current taxes in addition to the tax they will have to pay in 1943 for the previous year, in addition to coming around and asking for a pay-roll allotment. Unquestionably that is going to reduce the program, and I think you have to take that into consideration.

The consequence of that, it may be, will be that willy-nilly you will have to have some other program to supplement your voluntary bond program; and that will have to go into effect, and then you will be piling on top of that.

I think the thing needs to be reexamined in the light of the best interests.

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H.M.JR: Harry, when you cover the thing you might also cover the increase in your social security from one to three.

MR. WHITE: Randolph, I think the thing has to be given another look; let's reexamine it.

MR. BLOUGH: I will tell you what the next look will be. I don't think this Congress will pass these income exemptions or these income tax rates without a withholding tax hooked on. I think they will cut the income-tax program at least another billion dollars, and the sales tax will be an absolute certainty. That is your other look.

MR. SULLIVAN: And you are not going to get any increase in social security this year, anyway.

MR. BLOUGH: Not under any circumstances, in my opinion.

MR. WHITE: I don't know. Maybe you have reexamined the whole thing and you have come to that conclusion; but I think there is enough at stake, and if time isn't too pressing if you can devote another day or two and get some more discussions, get the various people in whom you have confidence in, and see what - it is a question of tactics, not tax matters.

MR. PAUL: Ten-thirty.

MR. WHITE: You couldn't stall them this morning?

MR. TARLEAU: There is a unanimous-consent request that this matter be taken up as the first order of business this morning, and that is why we are here.

MR. WHITE: Let me ask this question. Supposing you were definitely convinced that it is desirable to postpone the issue, do you think that you are ingenious enough to get it postponed?

MR. TARLEAU: We can go up there and withdraw it.

MR. WHITE: No, I mean without being absurd.

MR. TARLEAU: Harry--

MR. WHITE: You know what I mean, being smart about it. I don't know; I am not saying it is possible. I just don't know enough about it. I know a lot of things are possible in politics that don't seem to be until you have thought it over.

MR. BLOUGH: My idea is that this ought to go into operation July 1. Since that is absolutely impossible and it couldn't be put into operation until November, January 1 is a very good date. You are going to run up against this trouble, and something is going to have to be done about double payment in 1943.

MR. PAUL: I feel this way, not in any narrow sense but in the larger sense, that if we have to choose we ought to take withholding at the source, even if there is a bad effect on the voluntary program. I think ultimately you are going to come to that question.

MR. WHITE: I agree completely. Ultimately you will be faced with the issue that you will have to increase taxes, which will interfere with your voluntary program, no doubt about that.

MR. BLOUGH: They are doing it, though, in Canada both ways. Don't they have a pay-roll deduction plan in Canada for selling bonds?

MR. WHITE: They have just begun it.

MR. BLOUGH: And they have had a pay-roll deduction there for taxes for over a year.

MR. WHITE: But the savings program is just getting going. I don't know what success they have had. We

sent a man up there to get some information. He will be back this week.

Well, I just don't know; I am only thinking that it certainly seems to deserve another look-see for the moment because there are some rather large questions of strategy involved, and the tax aspects of it are not decisive at the moment, and no one is questioning--

MR. PAUL: Of course I think they are, in the very larger sense of the term.

MR. BLOUGH: You have changed your position completely in the last two or three months; I don't understand it.

MR. WHITE: Not if you can understand my position as I understood that it was. I don't think I have changed it. I don't think that I changed my mind, not that I wouldn't hesitate to if I thought I was wrong. I was for a one to ten percent withholding tax, surely, because at that time you were going to start at one and get the machinery going and move up; and I liked it both ways, flex it upward and flex it downward. I still am for it. It is an entirely different set of questions that are being raised now.

MR. BLOUGH: That wasn't your--

MR. WHITE: You state it if it is important. I don't think it is important what I held before; what is important is the merits of my present argument. I don't think that I have changed my position; I don't think that is important.

MR. BLOUGH: It always pays to take another look, but we have been looking at this so long that I question whether another day is going to make any difference.

H.M.JR: I have this suggestion. I realize Paul's position, and, after all - what I would like, in view

of all of this - and I have another thing which I want to mention, which I will bring up in another week or ten days, that is, this whole question of just what is happening to the cost of living. I will know much more about it in another ten days or two weeks, which will give us another chance, when we have some accurate statistics, if and when I go before the Senate. And if there are some entirely new figures on the cost of living, that would give me a basis to change my position if I wanted to. But, I mean, based on information - I mean, there is just one little thing happened to be here. I look down and I see that the retail department store sales on May 9 were only one percent higher than they were a year ago.

MR. HAAS: Prices are down nineteen percent, so the actual volume is less.

H.M.JR: The volume is less, the prices are down?

MR. HAAS: I mean up nineteen percent, so that means that actual volume is less.

MR. WHITE: I think one should be very cautious, and you are. I think you are proceeding properly in trying to get as much information as you can and tapping different sources than are customarily available, because I think you are quite right in saying economists can get in a certain rut of thinking a certain way and come to an erroneous conclusion, like everyone else. On the other hand, if you come to a different opinion with respect to the impact of the so-called gap on the remaining goods, you would have to do it very cautiously, and have more evidence than you are apt to get that way. I think what it might do is call for a reexploration - if you find the evidence that you are seeking, but not enough to go on--

H.M.JR: But, Harry, if I did it, I would make Henderson's organization and Nelson's organization prove their points all over again, and Eccles'. I mean, I would

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ask the three of them to a meeting. I would say, "I have got this information; what have you got to prove--

MR. WHITE: "What significance do you apply to this information?"

H.M.JR: "Or what evidence have you got to prove that this extra money is going to be at pressure?"

MR. WHITE: That is all right, as long as you reopen the question rather than take a position.

H.M.JR: I will check not only here in Washington, but all over the country. Let's just for a moment say that Beardsley Ruml comes to the conclusion - there won't be a better man to use as a foil against these people, because it would be quite novel to have him on the Treasury side, and there wouldn't be a better foil to use against Eccles and Henderson, and the others.

MR. WHITE: He would be very good.

MR. PAUL: What exactly do you think?

H.M.JR: Exactly what I think is this. I am going back to the statement you made, to make your position tenable and reasonable. In the early part of the discussion you said that this thing can't get into effect before the first of January, you can't get the machinery.

MR. PAUL: That is right.

H.M.JR: Now, all I am saying is that you stick to that position, and that if they vote this thing and if it is announced and it goes through, and they have exempted servants and farmers, I would like the announcement today to be that this thing will not be put into effect until the first of January. See?

MR. PAUL: Well, I think we can contrive to make that statement, surely, somehow.

MR. BLOUGH: I want the chairman - I don't say you - I want Chairman Doughton to say that.

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MR. SULLIVAN: You can raise the point of the effective date, Randolph, and they will--

H.M.JR: I want Chairman Doughton - I don't want it from the Treasury; I want Chairman Doughton to make that. If you have got any doubts about it yourself--

MR. PAUL: No, I haven't any doubts, except on the point as to what is the best way to get Doughton to do that.

MR. TARLEAU: You can manage to do that. We will talk to Stam and we will tell them - we can go back to Mr. Helvering's testimony and state that we have examined it again, and we have taken this matter up again, and we think we ought to advise them this will go into effect about January 1, and that January 1 is a good, convenient date. I think Cooper mentioned he liked that date.

H.M.JR: If there is any doubt, any trouble, call me on the phone, and I will talk to Doughton myself.

MR. PAUL: I don't think there will be.

H.M.JR: Randolph, I am laying great stress on this, on the date. I am laying great stress on this. So if you find that you can't handle it, what - I don't want you to say, "Well, the law will go into effect and we won't get around to it until January 1." I want it written into the law that it won't go into effect until January 1.

MR. WHITE: Do you think it will affect the possibility of its chance of passage?

MR. TARLEAU: I would put it right in.

H.M.JR: I want it out today.

MR. WHITE: Do you think it has a better or worse chance of passing if you made the January 1st date?

MR. PAUL: A little worse.

MR. WHITE: I wanted to know whether it affected the chances of its passage if the January 1 date were stressed, or if no date. He said the chances would be a little worse if the January 1 were stressed.

H.M.JR: Then you are for it?

MR. WHITE: Yes, yes.

MR. SULLIVAN: What other effective date has been discussed, Randolph?

MR. PAUL: There hasn't been any effective date.

MR. TARLEAU: Thirty days after the passage of the act, that is the usual effective date.

MR. SULLIVAN: Has that been discussed?

MR. TARLEAU: No, just generally mentioned.

MR. PAUL: Helvering said he couldn't get it into effect for two or three months after the law went into effect.

MR. SULLIVAN: I think Jere would suggest January 1.

H.M.JR: Bell has been very quiet. Do you want to say anything?

MR. BELL: No, I don't think so. I was just thinking, this ten percent goes into effect in January. I assume it is applying to 1943 liabilities.

MR. PAUL: That is right.

MR. BELL: And you will have a double tax, almost, on your 1942 liabilities, and I assume you are still going ahead with your plan to collect more of the 1942 liabilities in the last part of the fiscal year, '43. Is that right?

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MR. PAUL: The last part of the fiscal year.

MR. TARLEAU: We have to do that.

MR. BELL: In order to make your seven billion - I think your defense program is pretty well shot when you do that beginning January 1.

MR. WHITE: Defense program?

MR. BELL: Savings.

H.M.JR: I haven't said anything about that, but the reason I like January 1 is this - am I cutting you off?

MR. BELL: I like January 1.

H.M.JR: The thing I want to get over is you pay your last quarterly payment on December 15 for this year's taxes, and then you begin to accumulate, for the next calendar year, your earnings on the 1st of January - begin to set aside every month. I think that makes sense - if there is any reason for this withholding tax. Then on the first week in January you begin to set aside your money for your taxes for the current year '43 and your '42 taxes.

MR. WHITE: They have to be paid at the same time; you have to pay the first quarter on March 15, so--

H.M.JR: Two and a half months ahead, that is all. You are finished - on the 15th of December, you pay your last quarterly payment for your '41 taxes.

MR. BELL: I don't see any difference in it, Mr. Secretary, because really you are going to be hit harder in March by a larger tax, plus the advance payment brought back into this fiscal year of the '42 liabilities, in order to get it.

MR. SULLIVAN: Dan, you get that - whenever you put withholding taxes, there is the first hump, no way to

get away from it.

MR. BELL: No difference between January 1, from a practical angle, and July 1.

MR. WHITE: You are apt to have two and a half months, because if it began in November, on December 15 you would have to make your last quarterly payment, if you paid by quarters, so you only have a month and a half.

H.M.JR: Harry, if you paid July 1, over six months you are paying a tax, and then you have got two quarterly payments to pay.

MR. WHITE: Yes, if you paid it all in July.

H.M.JR: No, but you have got your payment on the 15th of September and your payment of the 15th of December.

MR. WHITE: That is right.

H.M.JR: And besides that your weekly withholding tax. But if you start on the first of January, '41 taxes are paid, finished.

MR. WHITE: Yes, you have two and a half months.

H.M.JR: You are just anticipating it by two and a half months.

MR. BLOUGH: You are a year behind - an unfortunate situation.

H.M.JR: It makes a lot of difference.

MR. WHITE: You have two and a half months in which you only have to pay one tax per week. At the end of that two and a half months you will have on hand, or have to save up enough to pay, the first quarterly installment on the previous year's taxes.

H.M.JR: Less what you paid in the two and a half months.

MR. GRAVES: No, in addition.

MR. WHITE: That only counts on the second year, that is why I say - Randolph very quickly said, "After all, this isn't advance payments," but for one you are paying double.

MR. BLOUGH: This is pretty important. If this had started July 1, 1942, you would have on September 15 an installment on your '41 taxes and on December 15 an installment on your '41 taxes and in the meantime withholding towards your '42 taxes. The '41 are lower than the '42 and apply to less people. If you start this January 1, '43 you are going to be paying in March, June, September and December your '42 tax liabilities and at the same time you are going to have withheld during 1943 your '43 tax liabilities.

Now, I mentioned a little while ago that I think there is the point that is going to have to be reexamined because I have some rather serious qualms about the ability of a lot of people to do those two things in the one year.

MR. BELL: Yet you plan to.

MR. PAUL: May I make a suggestion. I think we can get out of this January 1 hole in this way, that they have asked us to frame a motion for them this morning and the motion merely accepts withholding at the source in principle. Now, the matter of the exact date we have more--

H.M.JR: No, if you are going to do that - I want a date. You couldn't make it later than January 1, and I don't want it up in the air. I mean, Harold and I will have a heart to heart talk after this, but I can't cope with this situation as a thing that is left in the air.

MR. WHITE: I think it is going to be difficult to cope with it even if it isn't, and I think there needs to be assumed some reexamination of that, Mr. Secretary.

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H.M.JR: But you are not arguing with me in view of the position that Paul is in that it should be January.

MR. WHITE: Merely digressing for a reexamination.

H.M.JR: Would you want a resolution just saying we are in favor of withholding?

MR. WHITE: I think you are right. The uncertainty would be far more difficult for your program, although we are working ourselves into this position where everything is being determined by the effect on the Savings Bond program, and I think we have got to reexamine that.

H.M.JR: No. You haven't heard me say anything other than this. I have said very little about it.

MR. WHITE: Well, I think it is implicit in a good deal of our reasoning that we have got to be extremely careful lest anything done is going to interfere. I think it is true that it has an intimate connection, but I think the time is opportune. I think, Mr. Secretary, merely to recall some of our own statements, that you said sometime along in May that by June 1 you would be ready to reexamine the situation. I think the time is approaching.

H.M.JR: My testimony is July.

MR. TARLEAU: July 1, yes.

H.M.JR: My testimony is July 1.

MR. WHITE: I meant within the Treasury; I didn't mean outside.

H.M.JR: Well, I mean, we can't - but just as to the thing--

MR. WHITE: I agree with you that it shouldn't be uncertain.

H.M.JR: All right. Does anybody else disagree with the very positive statement I am making that I would like

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the Treasury to go up there and get for me a January 1 date? If the Treasury can't do it, I want to get in on it this morning.

MR. TARLEAU: We can get the January 1 date.

MR. PAUL: I think we can get that.

H.M.JR: If you can't you call me and I can get it in about two minutes, by calling the Speaker.

MR. BLOUGH: On the contrary, I think they will be glad to give it.

MR. TARLEAU: I think we can get the date.

MR. BLOUGH: They are running for Congress.

H.M.JR: Does anybody disagree with me on the January 1 date as against a resolution on the principle in favor of the withholding tax? O.K., sold.

It was a good discussion.

May 25, 1942
10:40 a.m.

INFLATION

Present:

Mr. Haas
Dr. Likert

DR. LIKERT: A rally was being held on the payroll deduction plan, which presumably was to be a rather widely attended rally; and instead of announcing it with a bit of enthusiasm and making it as dramatic as possible there was a tendency to merely say, "We just hope you will come." "Fellows, we are going to have a big meeting" and really paint it up and make them enthusiastic - that type of fire and enthusiasm wasn't in the picture.

Now, how widespread that is I don't know. In two out of the three communities that this particular individual had been in, there seemed to be less sense of showmanship, less real enthusiasm. At one place the person in charge seemed to be doing a job and doing it well.

It also ought to be said that all of those people feel the same pressure that you and many other people feel, that there is a tremendous job to be done and the time pressure is pretty great.

H.M.JR: Have you pulled those people back from the field?

DR. LIKERT: No. What has happened is this, that this person was a person from the Washington office. We took some from the Washington office, along with our field staff, and that one person from the Washington office is back. The rest of them are in the field, but

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they are now being shifted to other problems.

H.M.JR: Other problems? You feel you have done what we wanted?

DR. LIKERT: I think we have done the field side, yes. We have covered Hartford, Springfield, Boston, I think, in the New England area, and maybe Providence. I am not sure about Providence. We have covered St. Louis, Memphis, and New Orleans, I believe, in the South; on the west coast, Los Angeles, San Francisco, and Seattle, if I remember correctly.

H.M.JR: I had some things that I was interested in - I mean, they all fit into our problem. Let me state them to you, if your people are still in the field. Let me tell you what is worrying me and see if you can help me.

The first thing I think Haas has mentioned to you before. As you know, everybody in town is thinking along the same lines, namely, that this gap of seventeen billion dollars just has to act as pressure on prices. See? Well, we are getting a little bit of evidence that it doesn't necessarily follow that if the people have it in their pockets that they are going to spend it.

Then the question is, what are they going to do with it. Since this gasoline rationing has gone into effect in some sections, the buying has fallen off, and the first thing I was very anxious to find out from the field was - I mean, something within a week, you see, just enough to see - well, what has happened since gasoline rationing has gone in as to the buying. I talked to a few people, and it looks as though something has happened that they didn't expect; people can't get around and are sitting home.

Now, if that is correct, it is terribly important, not only to us but to Henderson and to Nelson and to Agriculture on the retail food prices, you see; and

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that was the thing that I was particularly anxious to find out about this week.

DR. LIKERT: We have missed that completely. We have missed that, because I didn't get that.

H.M.JR: Well, I wanted to talk to you myself. I would like to know what is happening this week with the people in the United States as to their buying habits since the gasoline rationing has gone in. Do you suppose you could make some kind of a spot check, just to see if something has happened? Now, I did mention this to Mr. Wickard on the food price retailer-consumer thing; he is tremendously interested in this, also.

DR. LIKERT: Yes. Now, you have in mind doing that, I presume, on the east coast where the rationing has gone into effect? The rest of the country wouldn't be involved, would it?

H.M.JR: I thought it had gone in all over.

DR. LIKERT: Just the seventeen eastern States.

H.M.JR: All right then, the seventeen eastern States.

Then if you are going to do that, the other thing I wanted to know is this - the same people that ask those questions, if they could ask one other thing, that is, how much effect does this discussion in Washington on the tax bill, the withholding tax, have on what they are going to do in regard to war bonds. I mean, is it going to make very much difference with them how many war bonds they are going to buy as to what they hear on what is coming out of Washington on the Ways and Means Committee? Is that clear what I mean?

DR. LIKERT: In other words, this business of ten percent, is it slowing down the purchase of defense bonds, or war savings bonds?

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H.M.JR: Yes. I wanted to spot check on that. What I would like is if a telegram of instructions, or something, could go to these people, and shoot this out so I could get something early next week on this. Can you do it?

DR. LIKERT: Well, I would like to kind of look at things a bit, if I can, and call you or Mr. Haas back, if I can.

H.M.JR: Call Haas.

DR. LIKERT: Just to be sure where our people are and that it gets in.

H.M.JR: On the first thing, I know that Wickard, Nelson, Henderson, and Mr. Eccles would all be tremendously interested to know.

DR. LIKERT: Actually the thing that you were talking about is the kind of thing that ought to be watched pretty continuously.

MR. HAAS: It ought to be watched all the time.

DR. LIKERT: At first they are maybe staying at home, and then there will be some readjustments in terms of finding that they can get around, and they will perhaps begin to spend more.

H.M.JR: I have asked Beardsley Ruml to do it from the retail store side. He is going to do that for me.

MR. HAAS: His man is in my office now.

H.M.JR: He is?

MR. HAAS: Yes.

H.M.JR: You haven't had a chance to talk to him?

MR. HAAS: I talked with him for half an hour. He is continuing with Lindow and Daggit.

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H.M.JR: What is he going to do?

MR. HAAS: We haven't got that far. I was trying to get him into the problem.

H.M.JR: There is no use mixing up the two.

MR. HAAS: I don't think they conflict at all.

H.M.JR: Who is he?

MR. HAAS: His name is Hackman. He is probably in charge of research.

H.M.JR: Did he seem intelligent?

MR. HAAS: Yes, he seemed quite intelligent.

DR. LIKERT: As I understand it - just let me repeat it - the thing you are concerned about is that since gasoline rationing has gone into effect there seems to be evidence that people are staying at home, and since they are staying at home are spending less money; they are doing just the opposite of what might have been expected, and instead of spending the money they formerly spent they are staying at home and not spending as much money as spent previously.

H.M.JR: There seems to be enough of a trickle of evidence that it is definitely worth exploring.

DR. LIKERT: And if that is what is happening, or whatever is happening, you people would like to know what it is, so far as its effect upon the total impact of purchases.

H.M.JR: That is right, and, as you say, that might be the first impact but it would be something I want to watch. What I want is something - I want that to come to me so that it is not more than a week old. I don't want it--

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DR. LIKERT: You want a continuous story, not more than one week old?

H.M.JR: Yes.

MR. HAAS: This fellow Hackman did say, Mr. Secretary, that when they cut off refrigerators and washing machines and automobiles, and so on, the wooden furniture manufacturers thought the excess would go into furniture; but it hasn't. He said one of the restricting devices prevailing in purchases has been this cut in consumer credit. He says the big play was, "Put a dollar down and furnish your house", and he says that now they can't do that he doesn't know whether they will accumulate the cash until they can make a cash payment on it or what. Just at the moment it is not going there; it is not being diverted over into furniture.

H.M.JR: And I wanted to tell - I mean, I discussed this with the President, and the President himself is tremendously interested in this thing and wants to get everything that I can get. I discussed this thing with him Friday, and he is very keen to know what is going on; so the first copy, whatever you give me, will go to him.

DR. LIKERT: Fine.

H.M.JR: I mean the first copy.

DR. LIKERT: I will give you an over-all summary, if you want me to, of the conditions, pretty specifically, up to this point - I believe up to a week ago today. In other words, our interviewers were interviewing in general on this problem up to a week ago today, on the whole economic adjustment of rationing.

H.M.JR: Up to the 18th?

DR. LIKERT: Yes.

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H.M.JR: You can?

DR. LIKERT: I think I can have that ready for you in a day and a half or two days' time.

H.M.JR: Then you could give me another one in another week?

DR. LIKERT: It might be ten days to two weeks because it will take me a day or two to get re-oriented on that and that material, and by the middle or the latter part of next week I can give you that.

H.M.JR: Where are you going to pick this information up? Are you going to pick it up out of stuff they are doing?

DR. LIKERT: For three weeks prior to this last Monday we were interviewing on the whole matter of rationing, savings, savings bonds, what people are doing with their money, whether they felt they had more money than they had a year ago, and if so what were they doing with it.

We found, for example, that a third of the people felt, on the basis of the preliminary tabulation over one city - a third of the people felt that they were making more money than they were making a year ago, but most of them said it was just about equal to the increase in the cost of living. That is one of the factors that I believe is going to be present in this whole situation, that while there has been an actual increase in the purchasing power of my income - we will say I am an average worker and I am not conscious of that increase, in the sense that I feel that the cost of living has about balanced it. Actually I am living somewhat better, but I don't recognize it.

Secondly, we know that there has been a feeling on the part of many people that life has been pretty tough, that this depression has been kind of hard, and now that

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they are back where they ought to be they want to buy some of the things they have been waiting a long time to buy. So there is some of that; whether that can be readjusted I don't know, but I do know they are looking at this as a period where they can do some of the things and buy some of the things they want to.

H.M.JR: This three weeks' interview - at whose instigation are you doing that?

DR. LIKERT: That is one we instituted ourselves. We thought it important.

H.M.JR: For the Department of Agriculture?

DR. LIKERT: No.

H.M.JR: Just on your own?

DR. LIKERT: It was part of this work for OFF. What we did is we suggested to OFF - this whole OPA rationing program, and all that type of thing, price-control program, was brewing right at that time; therefore, we felt the work ought to be started at that time, and consequently we undertook this three weeks' interview.

H.M.JR: Well, that is my good luck.

DR. LIKERT: Yes, it was just timed - we tried to time it in terms of what seemed to be a crucial problem, and evidently we have hit it so that it was crucial. We ought to be able to give you some information.

H.M.JR: You think by the end of this week I can get a summary?

DR. LIKERT: We can give you an over-all picture. That is in the process of analysis and is based on about seventeen hundred interviews. The material will be analyzed, and more complete reports, much more detailed

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information, will be available along about June 16 - June 19 or June 16.

H.M.JR: Well, I can get the over-all this week. I am just interested in how you - what staff do you use? Is your staff USDA?

DR. LIKERT: We were set up - yes, we are in the Bureau of Agricultural Economics, and when MacLeish went in at OFF he asked us if we could and would do work for him. We misjudged the situation a bit so far as Agriculture funds were concerned, and we had spent most of the money we had available when the first half of this fiscal year was over of Agriculture funds; and certain other defense funds that it had looked very much as though we would get we did not get. So we told Mr. MacLeish we would be very happy to do work for him, and consequently we are doing all of our work now for OFF.

H.M.JR: One other question, how many skilled people have you got - I mean not counting stenographers or clerks, how many people?

DR. LIKERT: Professionally-trained people?

H.M.JR: How many professionally-trained people are you using?

DR. LIKERT: We are using a field staff of approximately fifty people, and we have about thirty-five people here in Washington, professionally-trained people; with the clerical people we have a total staff of one hundred and seventy.

H.M.JR: Of those, eighty-five are the skilled?

DR. LIKERT: Eighty-five to a hundred, depending on where you draw your margin.

H.M.JR: About a hundred. I just wanted to get some idea.

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Well, that would be very helpful, and do you think you can then follow this thing up?

DR. LIKERT: I think that could be possible. What I would like to do is I would like to go over and check the plans and commitments we have to other agencies, see where we stand on man power, and then I may want to give your secretary or Mr. Haas a telephone call suggesting you get in touch with Mr. Kane. He is the person who has the authority, so far as OFF money is concerned, to say to spend it on this or to spend it on something else.

H.M.JR: Just work with Haas, and he can get it.

DR. LIKERT: I may want to suggest you call Kane. I think it is perfectly feasible. I think it is the kind of thing that can be done and ought to be done, so that it is a question now of working out the plans in such a way - the whole purpose of this thing is to do the job, as I see it - our whole function is to get the information that is most important to the major administrators in the Federal Government on problems of major importance.

H.M.JR: These are two pretty important ones. The one on the reaction on the tax bill of course interests me more than it does anybody else, but the other question interests half a dozen agencies.

DR. LIKERT: That cuts across all the major agencies.

H.M.JR: That is right.

DR. LIKERT: Very well.

H.M.JR: Now, when you have this over-all picture I would appreciate it if you would come in. I would like to go over it with you myself.

DR. LIKERT: Fine, I will do that.

May 25, 1942
2:46 p.m.

HMJr: Hello.

Operator: Senator McCarran.

HMJr: Hello.

Senator McCarran: Hello.

HMJr: Morgenthau speaking.

Mc: Yes, Mr. Secretary.

HMJr: Senator, I wanted to carry out my end of the bargain with you when I was up there the other day.

Mc: Yes.

HMJr: And Donald Nelson brought up the question at Cabinet about getting some more silver from the Treasury.

Mc: Yes.

HMJr: And I said that I couldn't do anything unless I first put the proposal to your committee.

Mc: Yes.

HMJr: Now, I wonder whether it would be convenient for you gentlemen if Mr. Nelson and Jesse Jones and I could come up there sometime Wednesday morning.

Mc: Yeah. Wednesday morning isn't so good, but I'll - just because of other engagements, but.....

HMJr: Well, we'll.....

Mc: How would either Tuesday or Thursday?

HMJr: Well, Nelson can't do it Tuesday, but I'm sure he could do it Thursday.

Mc: What do you say we make it for Thursday?

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HMJr: Well, we'll make it Thursday. Now, what time will that be?

Mc: Well, I would suggest ten o'clock.

HMJr: Ten o'clock Thursday.

Mc: Yes. I'll call them all together in the Indian committee room, where we were before.

HMJr: All - Indian committee room. Right.

Mc: All right.

HMJr: Thank you.

Mc: Thank you. I'll go at it.

HMJr: Thank you.

Mc: Thank you very much.

May 25, 1942
2:54 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allen
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine.

HMJr: Well, we seem to have hit it pretty well on the nose.

S: Right on the nose, I think.

HMJr: Yeah.

S: The market's taking it very well, without a quiver.

HMJr: Uh huh. When do you think we should close?

S: I think you ought to close tonight, although I think Bob Rouse would have a better feel of that than I have.

HMJr: Is he around?

S: Yes, he is.

HMJr: Is he there now?

S: No, but I can get him on the phone for you.

HMJr: Well, why not let him talk to Bell. Bell's here with me, and I'll have Bell call him when he goes back.

S: Yeah. I checked that first statement, because this being an exchange and some of the holders being out around the country, although most of it's in the hands of the banks, yet there might be some question on it, so I'd rather have him

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Speak for himself.

HMJr: Well, Dan said he's been talking - he just handed me a note - to Rouse, and he said that they think it should close tomorrow night, except for the twenty-five thousand.

S: Well, I modify my statement to agree with that, because on second thought I think it - there's no hurry on it, and it would be better to give them a little more time.

HMJr: Well, we could announce it tonight that.....

S: That's right.

HMJr:we're going to close tomorrow night.

S: I think that would be good so that there wouldn't be any excuse for stragglers.

HMJr: Except for - (talks aside) twenty-five. What are you going to do, give them an extra day?

D. Bell: Give them an extra day.

HMJr: He wants to give the twenty-five thousand dollar boys an extra day.

S: Well, that's good, too, because they sometimes are slow on the pick-up on this thing.

HMJr: Just on Home Owner's Loan.

S: Yeah. I think that makes a good program.

HMJr: All right. Then Dan'll go ahead with it. You see, Dan's got this twenty-five thousand dollar thing from the President, you see.

S: He's what?

HMJr: His twenty-five thousand dollar figure, he got that from the President.

S: Well, that doesn't affect any of us any more.

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HMJr: (Laughs) I see.

S: You've cut us all down to that anyway.

HMJr: (Laughs) I see.

S: (Laughs)

HMJr: Well, I'll have Dan go ahead on that basis.

S: I think it makes a good program.

HMJr: Right.

S: All right.

HMJr: Thank you.

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Treasury Department
Division of Monetary Research

● Date.....May 25.....19 42.
To: Secretary Morgenthau
From: H. D. White

That was a perfect meeting --
couldn't possibly have been handled
better.

May 25, 1942
3:05 p.m.

INTERNATIONAL STABILIZATION FUND

Present: Secretary Jones
Mr. Coe
Mr. Feis
Mr. Bean
Mr. Pasvolsky
Mr. Eccles
Mr. Goldenweiser
Mr. B. Bernstein
Mr. Foley
Mr. White
Mr. Bell
Mr. Southard

H.M.JR: I guess everybody is here that we expect, aren't they?

MR. WHITE: Yes, everybody is.

H.M.JR: We sent out to everybody here a preliminary notice of what we had in mind. I had shown it to the President, and he was sufficiently interested that he asked me to take it up with the various departments and study it, and come back and talk to him again after we had gotten the advice of the other departments.

Inasmuch as Harry White is carrying this study for me, I think you can go ahead, Harry, and talk a little bit. Talk loud so Mr. Jones can hear you.

MR. WHITE: All right. What we have done is to explore the groundwork for the suggestion for the establishment of an international stabilization fund and an international bank to meet the needs that we know are going to arise. I think, as indicated in the memorandum, there are certain aspects of the problem that are clearly enough marked so that we could go ahead with some preliminary discussions,

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in the hope of eventually working out the kind of arrangements that could be put into operation the moment the need arises. That isn't true of a great many of the kinds of problems that we will have, because they may await the development, further clarification, of the outcome of the war, which we are in no position to have sufficient, accurate information on to justify more than a good deal of the preliminary examination that is already going forward.

There are substantial areas of the post-war problems which are being studied and will continue to be studied by various groups who are working on it, but this particular area is concerned, as indicated, with international stabilization funds and with the provision for credit needs. It is one that we have delved into sufficiently to feel that enough work can be done to hope for a definite, specific proposal to be worked out by the various governments. We didn't want to initiate it until we were sure in our own minds that something could be worked out that had the chances for working successfully after it was initiated. We think we have gone far enough along that path to feel some assurance that something can be worked out of that character, but what we have done is purely of an exploratory nature.

What it seems to us the next step should be is to take that material and put all the minds on it that are interested in the subject, and see whether we can't work out something that will meet with the approval of all those who will have a say on it. At the same time, and while that is going forward, there is need for working out the agenda and the modus operandi for getting the various governments to focus on the problem.

This particular proposal, as is clear from the memorandum, differs from, I think, most of those that we have ever considered, in that it is an intragovernmental matter. It is something which the United States would only be one of the participants, obviously one that would be very important and yet it would only be one of the participants.

It is something that requires for its success participation by a group of nations, and so it is my thought,

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Mr. Secretary, that what we first might do is ask you to appoint a subcommittee, an informal subcommittee, that could begin working on the specific suggestions that are before us and other specific suggestions that might be forthcoming from the various organizations after we once started to study the particular plan. Then we would be able to report back to you in the near future something that had either a substantial measure of agreement or in which there were incorporated the various ideas which would be forthcoming from the various technical men who would be working on it from the appropriate organizations.

At the same time, that committee could go forward with preparing an agenda, which you then could consider from the point of view of its adequacy and appropriateness for a possible international conference to be confined to those specific monetary and credit problems.

We have some material to begin with, and more will be forthcoming very soon. If you do appoint a subcommittee, we can add to that very quickly and be able to have something much more definite to say to you within a couple of weeks.

H.M.JR: I would like to ask Mr. Jones first what he thinks, if there are any questions he wants to ask, and if he thinks that is a good way to proceed.

MR. JONES: I think it is the proper way to proceed. I think certainly the subject is one that should have attention, and I think this suggestion of his to appoint a committee to be put to work and get together and exchange ideas with us--

H.M.JR: Do you think it will be all right?

MR. JONES: Excellent. I think it is very timely, a very necessary, thing to be done.

H.M.JR: You think it is all right?

MR. JONES: I think so.

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H.M.JR: Who would represent you?

MR. JONES: I think I would suggest Clayton.

H.M.JR: Mr. Eccles, what would you think?

MR. ECCLES: I feel this is a very important problem, and certainly we can't wait until we are confronted with the problem after the war to deal with it. We have got to be as well prepared as we can be, and unless immediate studies are undertaken and a program worked out, certainly we may wake up and find that we are thoroughly unprepared to deal with the post-defense problems, which would be very unfortunate. Of course we have given some thought and discussion to the inter-American problem over the last year or two, and we have a proposal to establish an inter-American bank, which, of course, has not yet been undertaken.

As I get it, this problem here envisions a world situation rather than an inter-American--

H.M.JR: That is right.

MR. ECCLES: ...situation, and would therefore take the place of or absorb, possibly, the inter-American bank idea.

MR. WHITE: It might be supplementary.

MR. ECCLES: It might be. Of course you have likewise got the BIS, which was a world bank that we didn't participate in as a government, but our private banking interests did. That has still been kept intact, and I suppose consideration should be given to that situation. In any case it is quite clear that there are very many important international monetary and exchange problems, and they can't be worked out without a very comprehensive, and what may appear to be a very radical innovation from anything that we have thought of or conceived in the past on the basis of the operation of an international gold standard. It is in another world; we have no blueprints, and I think we had better start getting them.

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H.M.JR: Is it agreeable to you that we go ahead?

MR. ECCLES: Very much so.

H.M.JR: Who would you care to have represent you?

MR. ECCLES: Well, I hadn't had a chance to discuss this matter with the Board. I just got this Friday, and discussed it with - Thursday - discussed it a little with Dr. Goldenweiser, asked him to go over it. If agreeable to the other Board members, I would think that Dr. Goldenweiser should represent us, and possibly select such members of the staff who are familiar with these international questions.

MR. WHITE: Exactly. It would be very helpful if we could have not only Goldenweiser, but some other members of his staff.

MR. ECCLES: We have Kindleberger and Gardner, and four or five fellows who have devoted their whole time to this international question.

H.M.JR: Will they have time?

MR. ECCLES: Absolutely, this is the most important thing in the international field from a monetary standpoint, and that is their job.

Subject to the approval of the Board, Dr. Goldenweiser can select such members of the staff whose services can be used.

H.M.JR: Are you talking for Mr. Wallace?

MR. COE: Talking in a very tentative way for him, I think there is no doubt that we are very glad to see the Treasury raising this, and we also think that from a first hasty look the two problems carved out are ones where a good deal of spade work can be done and should be done - very much. So we echo what Mr. Eccles said.

As to the particular person who would be assigned, I couldn't say.

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H.M.JR: I take it he is sufficiently interested that he would appoint somebody?

MR. COE: Oh, yes, indeed.

H.M.JR: And last, but not least, the State Department.

MR. FEIS: We, too, think that the time has come to pursue this study, and I don't know any better way of doing it than the one you suggest. We have a few very brief requests or observations, that we have got ahead of us, by which I mean the Government has ahead of us in the near prospect, two series of discussions. One is regarding relief, and one is regarding general economic relations as spelled out in article seven of the Lend-Lease agreements.

H.M.JR: May I interrupt you? What do you mean by relief?

MR. FEIS: Relief for the present occupied areas and other suffering areas, problems of organization and of policy in that field. The commencement of discussions is in the near future, and the commencement of the other discussions, in a very informal way, are also in the near future. Both of those matters will have their financial aspects, their credit aspects - I don't see any monetary aspects, but there are credit aspects, and so certainly the plans and conclusions that the committee that is going to work on this job will develop ought to be fitted in as closely as they could, and the group sort of keep in the closest possible contact in the conduct of their work.

Secondly, when and as it seems that the work has gone far enough to warrant acting on Mr. White's thought that we might want to assemble an international group-- at that time the Secretary said that measure would obviously have political significance, good or bad, perhaps quite possibly all to the good, and at that time we presume that before any move was made you would discuss it again with him about the matter.

H.M.JR: Of course, I mean, any political aspects--

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MR. FEIS: Well, getting together of any international assembly at this time would provoke a political question.

H.M.JR: I think what I would like to do, as I say, is have this committee proceed, and just as soon as they have got anything to say, let us know.

MR. JONES: Let Harry be the chairman of the committee and call them when he wants to.

H.M.JR: That is right; and then just as soon as they have got anything, we could meet; and then if we got along far enough that we had a plan, maybe Mr. Hull could meet with us. We would be very glad to go over and have the meeting in his office.

MR. FEIS: May I ask Mr. Pasvolsky if he has anything to add? I haven't had a chance to clear with him.

MR. PASVOLSKY: I think that is entirely our feeling in the matter. The Secretary is very much pleased that this subject is going to be subjected to a very serious discussion. It obviously needs it, and obviously the first stage in the procedure is to determine our own attitude and our own course of action. For that purpose, it seems to me that the plan proposed by Mr. White is admirably suited to the situation. A committee like that really ought to be able to produce fairly quickly some tangible results that could be the subject of discussion, and then obviously there will be another technical stage. Probably you might want to talk to the technicians, technical experts, of other countries. Our conferences always fail because they are not well prepared. This is one that we have an opportunity to prepare very well.

H.M.JR: If this one comes into being, it will be the first one I have ever participated in, so I want it to be good.

MR. JONES: So you haven't any advantage over anybody else?

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H.M.JR: No, but the advantage of the experts who have gone to these international country clubs for years. There is one thing I would like to say, and I hope the State Department will concur in this - the thought that I had in my mind was that if we went ahead with this, this would be a substitute for the one which was suggested down at Rio for North and South America; if we were going to do this, we wouldn't want to do the one that was suggested at Rio.

MR. WHITE: Mr. Secretary, what that resolution stated, you remember, was that they would participate when this was arranged, so it wouldn't be so much a substitute as it is the anticipation of their participation.

H.M.JR: Whatever it is, if this takes place, it wouldn't be one for North and South America.

MR. FEIS: You mean by this an international gathering?

H.M.JR: Yes.

MR. FEIS: I think we feel, subject to some further presentation, of that - subject to some further presentation, I think we would feel that was up to the Treasury to decide whether they wanted Rio.

H.M.JR: What I meant was this, that if after careful consideration the President decided that he wanted us to go ahead with this, that we wouldn't then also have one for North and South America. That is what I meant.

MR. PASVOLSKY: Probably not.

MR. WHITE: They would participate in this, as indicated in their resolution.

MR. PASVOLSKY: That resolution was very carefully worded from that point of view.

MR. WHITE: I think so. You remember that we worked over that.

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MR. FEIS: I would say this way, yes, unless you yourself thought there was something to be done between the American states that ought to be done through Rio machinery, as I think perhaps there might be. I don't think you can tell.

H.M.JR: Well then, if it is agreeable to everybody, and I take it that it is - Mr. Bell, excuse me--

MR. BELL: It is all right with me.

H.M.JR: Have I left any loose stitches anywhere?

MR. BELL: No, I think a subcommittee is all right. I think the subcommittee is a good thing.

H.M.JR: Well then, supposing we go ahead with Mr. White as chairman and proceed as rapidly as our intelligence will permit us.

MR. WHITE: I have one request, Mr. Secretary. There are in Washington, fortunately, at this time, two or three men, or a half a dozen, at least, who do not, I think, possibly belong to the specific agencies and yet by virtue of their training and experience might be of considerable help in the preliminary stages, and what-not. Since I feel this needs as many good heads as possible to get it together, would it be all right if we called in some of these men in their expert capacities?

H.M.JR: Men in Government employ?

MR. WHITE: In Government employ, but a good deal of their training has been in this particular field.

H.M.JR: All right. Thank you very much.

MR. BELL: Keep it out of the press.

MR. WHITE: I certainly won't give it any publicity.

May 25, 1942
5:05 p.m.

TAXES

Present:

Mr. Sullivan ✓
Mr. Graves ✓
Mr. Bell ✓
Mr. White ✓
Mr. Blough ✓
Mr. Paul ✓
Mr. Haas ✓
Mr. Kuhn ✓
Mr. Tarleau ✓

H.M.JR: O.K., gents. Paul, the audience is yours.

MR. PAUL: I don't even know the purpose of the meeting. Is this a continuation of our meeting this morning?

H.M.JR: I hope not. Just give us a report. You went up on the Hill.

MR. PAUL: We went up there this morning. I talked with Doughton and Cooper on this January 1 date and they quite readily agreed, and Cooper put the date January 1 in his motion.

MR. BLOUGH: By unanimous consent.

MR. PAUL: It was by unanimous consent. It was put on the ground of convenience to the Commissioner and convenience to the taxpayers. There was none of this motivation that we had discussed in this room. (Laughter)

H.M.JR: Who was he looking at when he said that?

MR. PAUL: Anyway, they finally came to a vote, after a lot of discussion, just around noon time, and I was told later this afternoon by Robertson - the vote was to postpone consideration of withholding at the source, and I was told by Robertson that there were five or six votes on Cooper's motion; that he made the motion and that the rest of them had mail over the week end which protested withholding at the source, and they wanted to think it over longer. Robertson said he had the votes Friday, but over the week end we lost ground.

H.M.JR: It is wonderful what this fellow Harry White can do over one week end.

MR. WHITE: Fast worker.

MR. BELL: I was just going to blame Harold Graves.

MR. PAUL: Then this afternoon, all the afternoon, the estate tax--

H.M.JR: Wait a minute. Wait a minute. We are not interested in the estate tax. We are all alive, I hope. What does this mean now, because this is big stuff as far as we are concerned. What is going to happen?

MR. TARLEAU: It will come up again. We are going to have a postponement of this, I should say, maybe for about a week; we are taking up estate taxes and then excise taxes, and then they will probably come back to this again. So it may come up again next week or it may be postponed longer; but next week they will bring the matter up again, I should think. At least that is a possibility.

MR. PAUL: They want to read some more mail.

MR. TARLEAU: Robertson said - he suggested we get people to send mail to him on our side.

H.M.JR: Which is our side? (Laughter)

MR. TARLEAU: I don't know, I thought we had one until this morning. (Laughter)

H.M.JR: I just want you to know that I had no communication with Harry White until he walked in the room here.

MR. PAUL: I would like to have you know that had I known this morning what was going to happen I would have pretended that I would very cleverly get that postponed. (Laughter)

MR. BELL: You did a good job, Randolph.

MR. WHITE: I had confidence in you. (Laughter)

H.M.JR: Well, Harold, you see just what you can do with a little persuasive power, see? Do you want to send your people, your State chairmen, a telegram tonight or not?

MR. GRAVES: Well, Mr. Blough and Mr. Paul just got back and I-just before you sent for us I had finished talking with Roy, who promised me a memorandum that I could use as the basis for it. I think tomorrow will be plenty of time.

MR. WHITE: Will that be public information in the press?

MR. KUHN: It is in the papers already, the front page of the Star, that they had postponed it.

H.M.JR: I don't know whether these people are interested, but I am, on what happened in the afternoon.

MR. PAUL: It was just a pretty bad exhibition. We put forward our arguments on the estate tax, and various agreements we had with Stam, but the place where we didn't agree with Stam was the rate structure, and we were accused by Boehne of bringing back the shades

- 4 -

of Huey Long, and it is obvious that the committee - Stam opposed any increase in the State tax rates, and it is obvious that the committee is hostile to any substantial increase. That is two hundred and eighty million dollars gone.

MR. TARLEAU: Is that two hundred and eighty million gone?

MR. PAUL: Yes.

MR. TARIEAU: They are willing to lower the exemptions.

MR. BLOUGH: It isn't gone yet, I don't think, altogether.

MR. TARLEAU: Does that include lowering the exemptions, Roy?

MR. BLOUGH: The exemptions - so far as the two hundred and eighty million is concerned, the exemptions, if anything, are being increased on the average.

H.M.JR: Well, you fellows look gloomy tonight.

MR. BLOUGH: We are being defeated with proper regularity.

MR. WHITE: With aplomb?

MR. PAUL: It was pretty bad. It is obvious that this committee - this is the most hostile it has been to any change.

MR. BLOUGH: Well, last year they were, too.

MR. SULLIVAN: Same thing last year - you are going to get--

MR. BLOUGH: The only thing was Treadway wasn't there to bring in his hotel managers, hotel illustrations, today.

H.M.JR: Well, I wanted this group to get it fresh, that was all, right from the horse's mouth.

MR. SULLIVAN: Did you get the notice of the meeting Thursday night at eight o'clock on joint taxes?

H.M.JR: No.

MR. SULLIVAN: I gave it to Stephens. Do you (Paul) know about this? I am going over the whole thing with him.

MR. PAUL: Yes. That is a totally different thing. I don't have anything to do with that.

H.M.JR: I just want to make sure nobody is affected. I am going up there Thursday night to, supposedly, an executive session, but I hope not, to tell these people about how the Treasury is going to treat excess war profits made during 1941. Is that right, John?

MR. SULLIVAN: That is right. Now, you will have a general statement laying down the guideposts, and I think that we should have that prepared for distribution because if we are going - if we are going to go beyond just punishing the people who are guilty and warn other people what not to do, that should receive very wide publicity, that statement of yours. Then beyond that the Commissioner or I will present about six or seven cases, the first of this series.

Now, the Commissioner and I are going over the budget tomorrow morning at ten o'clock, and when we get back we are going to work on your cases. We may want to discuss with you the advisability of having the statements on those individual cases drawn up as corporation "A" and corporation "B", so the name doesn't appear, and just let some of this out so they will know what we are doing.

H.M.JR: Well, in appearing before that committee I would have the name on it.

MR. SULLIVAN: Yes, but I mean, have it prepared for them if they wish to use the other.

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MR. PAUL: You said excess war profits - I didn't quite understand.

MR. SULLIVAN: I didn't say that.

MR. PAUL: Mrs. Secretary did.

MR. SULLIVAN: Well, these are cases like Jack and Heintz cases.

MR. PAUL: Salary cases?

MR. SULLIVAN: Salaries and many other things.

H.M.JR: Salaries is only part of it. I mean, it is what these people have done to get rid of their excessive war profits through evasion.

MR. SULLIVAN: We have got a telephone operator who jumped from thirteen hundred to sixty-eight hundred, on the switchboard, and is still on the switchboard doing the same thing.

MR. PAUL: Do you think that will have any backfire, Roy, in respect to their saying, "Let's lower the rates, then"?

MR. BLOUGH: I don't know, but I shouldn't think it would.

H.M.JR: The purpose is this: I want to show that the Treasury is making full use of all the law which they have given us. See? The reason I am bringing it now is - God, if anybody has got any doubts, it is almost too late, but not too late. I mean, I want to show that we have got this thing and we are on the job, and here is a corporation that showed, roughly, a hundred and thirty thousand dollars - paid a hundred and thirty thousand dollars tax and we are adding nine hundred thousand more. Is that right?

MR. SULLIVAN: On the agent's reports, we increased Jack and Heintz' tax from a hundred and seventy-one thousand

to a million seventy-six thousand, an increase of about nine hundred thousand. On going over it here, we are afraid that the agent was a little zealous and disallowed some things he should have allowed, so we are only increasing his tax between six and seven hundred thousand.

H.M.JR: Still very good.

MR. KUHN: Is that to be given to the papers as the initial statement?

H.M.JR: Ferdie, another reason I am bringing this up is I want them not later than tomorrow to get it to you so it can be written in newspaper form, because if it is written in newspaper form it will be clear, and the idea is, I am going up before these people. I haven't got the authority to give it to the newspapers, but they have. Am I right?

MR. SULLIVAN: No, I don't think they have. I don't think they can give them out. I think you thought that if they got these tough cases they would talk enough so that it would get out.

H.M.JR: Well, at least we are going to lay it on the line.

MR. PAUL: Don't they have the authority if no names are mentioned?

MR. SULLIVAN: I don't think they have ever exercised that, have they, Tommy?

MR. TARLEAU: What is that?

MR. SULLIVAN: Giving out the names of taxpayers.

MR. WHITE: No names, just giving illustrations, just giving the illustrations, of course.

MR. SULLIVAN: That is why I propose to do over the statements, as corporations "A" and "B".

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H.M.JR: I just want to make sure that as far as Paul is concerned--

MR. PAUL: I don't see any conflict there, do you?

MR. TARLEAU: No, rather it might be helpful because with the high rates we will still manage to keep the thing under control through the Bureau.

MR. KUHN: Couldn't the statement come out as written or would it be in the form of Leon Henderson's testimony?

MR. SULLIVAN: No, first the Secretary makes a statement which can be published because it refers to no particular - names no corporations; it outlines the evils and indicates how we are progressing to prevent the repetition, what we are doing to those companies that have offended up to now. Then when he gets through with that statement, which can be made public, the Commissioner and I will go ahead and present in detail the statements on the first of these five hundred companies we have investigated.

MR. WHITE: You are sure the particular illustrations you use - you have got authority, sound cases, and there aren't extenuating circumstances of one character or another.

MR. SULLIVAN: Yes, we are picking the cases we are surest of, Harry, and that will not be made public.

H.M.JR: Well, anyway, the thought, Ferdie, that I have back of the thing is, because this happens to be my own idea that I want to do this - that I, as Secretary of the Treasury, am going to use every bit of authority I have got to take the profit out of war.

MR. KUHN: I think it is very important to come out with that publicly.

H.M.JR: I want you to say it, that I want to use everything I have that Congress has given me to use,

- 9 -

every effort, to take the profit out of war. And here is a concern - I mean, they are just as vicious as they can be in their method of evading the law.

MR. KUHN: All that you said about the attitude of labor toward management's profits is borne out by all the public opinion surveys I have seen. It is the biggest single reason for labor dissatisfaction with production.

H.M.JR: And I think my doing this ought to help Harold as much as any single thing that I can do.

MR. SULLIVAN: I think it will help Randolph, too, Mr. Secretary.

MR. PAUL: It might help us with the twenty-five thousand limitation if we had any hope there, but we haven't.

H.M.JR: Would or would not?

MR. PAUL: Would.

H.M.JR: Please, Ferdie, get on this thing tomorrow, and drop everything else.

MR. KUHN: Good. I am keen on it.

H.M.JR: I mean, drop all of this folderol that you and I play with normally, will you?

MR. KUHN: All right.

H.M.JR: I mean, that we normally play with, and get on this from now until it is finished.

MR. KUHN: I am keen on it. I think it is very important.

H.M.JR: And then let everybody else in the room see it - have a crack at it.

MR. KUHN: Who has got it now?

- 10 -

MR. SULLIVAN: I have it in my desk. I am going over it with Commissioner Helvering tomorrow forenoon, and then I will bring it in to you. Tommy has worked on it and Koy has worked on it.

H.M.JR: Thank you all.

275/42 ✓

Everything went
well on the Jan.
1 matter. This date
is in the motion
being voted on.
Doughton and Cooper
supported us
splendidly

RSP.

May 25, 1942.

Harold Graves

Secretary Morgenthau

I have an appointment Tuesday morning with both
Willem and Blow, made at the request of Judge Rosenman*

O.K.

May 25, 1942.

Harold Graves
Secretary Morgenthau

Not later than Tuesday morning, if possible by Monday night, through Dick Patterson's office in New York, please give me a line on Mr. Willem, who is coming down to see me Tuesday morning with Mr. Biow. I want to know what Willem is doing in connection with the New York office and what his private business is. You might look up his latest income tax, that might give us a line on him.

See Graves memo of 5/25/42 -

-COPY-

May 25, 1942.

TO: Secretary Morgenthau
FROM: Harold Graves

With reference to your inquiry of this morning:

Joseph Willen is Executive Director of the Jewish Federation, of which George Medalie is President. Mr. Medalie made Mr. Willen available to the New York Committee for special work on F and G Bonds.

I have asked Mr. Woolf, Acting Chief of the Intelligence Unit, to let me have the recent income-tax returns of Mr. Willen.

(See statement attached.)

Income reported by Joseph Willen:

1937	\$20,000	from the Jewish Federation
1938	20,000	from the Jewish Federation
1939	22,500	from the Jewish Federation
	7,500	from United Jewish Appeal
1940	22,500	from the Jewish Federation

May 25, 1942.

George Haas
Secretary Morgenthau

Please get as soon as you can this morning a copy of the release given out by the Department of Commerce having to do with inflation, which I read either in Saturday's or Sunday's paper. - Done - *Per Haas* -

5/25/42

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

JK
DATE May 25, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

You will be pleased to know that Axis broadcasters have been paying attention to War Bonds and other Treasury activities in the past week, and have been going after you and the President personally in connection with them.

I attach a couple of extracts from recent propaganda broadcasts.

JK.

Attachment.

Official German Broadcast to North America, May 18th:

Although Roosevelt and Morgenthau continue to invest their own huge fortunes in real estate, the latter has had the effrontery to try to force 67,000 Treasury Department employees to buy even larger amounts of Washington's worthless war bonds.

Each of these 67,000 who values his or her job must soon begin investing at least 10 percent of his or her salary in Morgenthau's bonds. The wise among them, however, will probably find some way of evading Morgenthau's blackmail and follow the example of the tens of millions of other Americans who have already seen through Morgenthau's card game and are buying things which cannot lose in value.

According to a recent report of the Federal Reserve Board, an even greater number of real Americans are refusing to turn their money over to racketeer Roosevelt in the form of bond purchases. The report of the Board described this attitude as showing a regrettable lack of will to cooperate. It is certainly this and much more. It is the most elementary form of self-preservation and a declaration of independence from rascal Roosevelt and his kike financiers.

These millions of bond boycotters rightly take the stand that when Morgenthau and Roosevelt have sold their millions of dollars worth of real estate and have invested the proceeds in Government bonds, then Christian Americans can consider a similar step. As long as Morgenthau and Roosevelt continue to hang on to their real values, however, every real American is more than justified in buying something else which is tangible and will increase in monetary value.

Official Italian Broadcast to Latin America, May 17, 1942:

American distrust in war bonds must be very great. The Government has had to urge savers not to hide their money in mattresses and in stockings because this constitutes an attitude of non-cooperation and bad will. This attitude must be very common because there is so much worry about it.

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Official German Broadcast to North America, May 16, 1942:

Secretary of the Treasury Morgenthau's new scheme will require that every person who files an income tax return must pay a \$5 fee on the spot, while whoever fails to file will be subject, of course, to a fine. Thus, this funny prankish financier arranges things so that he will get a rake-off from all real Americans both coming and going.

May 25, 1942.

Dear Mrs. Coolidge:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

As part of its campaign, the Treasury wishes to lay special emphasis on the rich heritage of American tradition which we are fighting to preserve.

Any message which you, as the wife of a former President, could give us regarding the importance of the War Savings effort would carry great weight with the American public. Could you give us a brief statement of 200 or 300 words long which we could release to the press?

I am assigning Julian Street, Jr., of my office, to see that you are supplied with all the necessary details and information needed for the preparation of your message. He will call on you personally at your convenience and outline our present objectives in greater detail. I sincerely hope that you will find it possible to make this contribution to a most vital part of the Treasury Department's war program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Calvin Coolidge,
112 Washington Avenue,
Northampton, Massachusetts.

H. M. C.
Copies to Thompson

FK/ew

May 25, 1942

Dear Mrs. Wilson:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

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Sincerely,

(Signed) H. Morgenthau, JR.

Mrs. Woodrow Wilson,
2340 S Street, N. W.,
Washington, D. C.

*H. M. C.
Cypis and Thompson*

FK/ew

May 25, 1942

Dear Mrs. Roosevelt:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Theodore Roosevelt,
Oyster Bay,
Long Island, New York.

FK/ew

n.m.c.
Copies to Thompson

May 25, 1942

Dear Mrs. Preston:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

As part of its campaign, the Treasury wishes to lay special emphasis on the rich heritage of American tradition which we are fighting to preserve.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. T. J. Preston,
58 Bayard Lane,
Princeton, New Jersey.

nmc
copies to Hampton

FK/ew

May 25, 1942

Dear Mrs. Harrison:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

As part of its campaign, the Treasury wishes to lay special emphasis on the rich heritage of American tradition which we are fighting to preserve.

Any message which you, as the wife of a former President, could give us regarding the importance of the War Savings effort would carry great weight with the American public. Could you give us a brief statement of 200 or 300 words long which we could release to the press?

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Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Benjamin Harrison,
29 East 64th Street,
New York, New York.

H.M.C.
copy to Thompson

FK/ogk

May 25, 1942

Dear Mrs. Hoover:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

As part of its campaign, the Treasury wishes to lay special emphasis on the rich heritage of American tradition which we are fighting to preserve.

Any message which you, as the wife of a former President, could give us regarding the importance of the War Savings effort would carry great weight with the American public. Could you give us a brief statement of 200 or 300 words long which we could release to the press?

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Sincerely,

(Signed) H. W. H. Morganthau, Jr.

Mrs. Herbert Hoover,
c/o Leland Stanford University,
Palo Alto, California.

FK/ew

(in mail)

H. W. H.

Copies to Thompson

May 25, 1942

My dear Senator:

I am sorry to learn that your mother is not well. Because of her illness I am sending the enclosed letter to her in your care. We are asking the wives of former Presidents each to contribute a message on the importance of investing in War Bonds.

If there is any way in which Julian Street, Jr., of my office, can help in getting suitable material prepared for such a statement he is at your service.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Robert A. Taft,
United States Senate,
Washington, D. C.

FK/cgk

*N.M.C.
Copies to Thompson*
By Messenger *U* each 3:15
5/26/42

May 25, 1942

Dear Mrs. Taft:

I am writing to ask if we may enlist your help in our campaign for the purchase of War Savings Bonds and Stamps.

As part of its campaign, the Treasury wishes to lay special emphasis on the rich heritage of American tradition which we are fighting to preserve.

Any message which you, as the wife of a former President, could give us regarding the importance of the War Savings effort would carry great weight with the American public. Could you give us a brief statement of 200 or 300 words long which we could release to the press?

I am assigning Julian Street, Jr., of my office, to see that you are supplied with all the necessary details and information needed for the preparation of your message. He will call on you personally at your convenience and outline our present objectives in greater detail. I sincerely hope that you will find it possible to make this contribution to a most vital part of the Treasury Department's war program.

Sincerely,

(Signed) H. Morgenthau, Sr.

Mrs. William Howard Taft,
2215 Wyoming Avenue, N. W.,
Washington, D. C.

M.M.C.
Copies to Hampton

Supreme Court of the United States
Washington, D. C.

May 25, 1942.

My dear Mr. Secretary:

I have received your letter of this date asking me to speak at the meeting to be held at the Lewisohn Stadium in New York on June the third in connection with the effort to rally the Negroes to the support of our common cause. I am exceedingly loathe to decline your very earnest invitation, both because of my keen interest in the war effort and my appreciation of the difficulty of the problem to which you refer. But, while my general health is good, age has taken its toll and I find myself no longer equal to any long sustained effort. I do not feel that I could undertake such an engagement as you suggest. Indeed, I regret to say that I am admonished that the time has come when I must forego the privilege of preparing and delivering public addresses. I am very sorry to disappoint you.

With high esteem, I am,

Very sincerely yours,



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

May 25, 1942

My dear Mr. Chief Justice:

I am writing to ask whether you would accept a speaking engagement on June 3rd which would be a real service not only to the War Savings program but to the war effort as a whole.

As you know, the President and many others in Washington have been increasingly disturbed over the attitude of Negroes toward the war and toward their participation in it. Public opinion surveys have indicated that Axis propaganda, particularly Japanese, has made more serious inroads among our Negroes than among any other group in the population. In the light of this information, the President recently asked a number of government departments whether they could do anything to remind the Negro people of their tremendous stake in the outcome of this war and to rally them to the active support of the common cause.

Accordingly, the Treasury Department has arranged a series of great meetings in large cities, including one in Lewisohn Stadium, New York, on the evening of June 3rd. It would be a high compliment to the Negro people if you would consent to be the chief speaker on this occasion. There will be only one speaker; the rest of the program will consist of singing by Paul Robeson and Marian Anderson, and a call for pledges and voluntary help in connection with the War Savings campaign.

I should not be trespassing on your retirement in this way if I did not feel that this was a vitally important occasion and that your presence would guarantee its success. I do hope that you can see your way clear to accept, and I can think of no one else who could do so much good.

With best regards,

Sincerely,

(Signed) E. Borahaus, Jr.

The Honorable Charles Evans Hughes,
2223 R Street,
Washington, D. C.

Sent by hand from Mr. Kuhn's office

W/cgk

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 25, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Mr. Skouras is bringing with him two men who will help on our rallies. Would you want them for dinner tonight? Mr. Skouras apparently had planned to discuss the whole thing with me and with them at dinner this evening.

F. K.

TREASURY DEPARTMENT

295

INTER OFFICE COMMUNICATION

DATE MAY 25 1942

TO Secretary Morgenthau

FROM Mr. Hass

Subject: Number of days it takes to receive a war savings bond issued by a Federal Reserve Bank or by a corporation issuing agent.

In accordance with your instructions, the Federal Reserve Banks were asked to make a sample survey each Friday morning that would show the number of days it takes a person to receive a war savings bond (1) issued by the Federal Reserve Bank, or (2) issued by a corporation which has qualified as an issuing agent. This survey was intended to take the place of the postal card survey conducted by the Federal Reserve Banks last month, a survey which you will recall provided us with no useful information.

The first of the Friday morning surveys was conducted by the Federal Reserve Banks last week and the results are summarized in the two tables attached. The more important items noted are the following:

- (1) A person buying a war savings bond by sending a check to the Federal Reserve Bank through the mails normally waits 8 days before he receives his bond. Two of these days are consumed by the movement of the mails; three more of these days are required by the Federal Reserve Bank to collect the check; and one of these days is a Sunday on which no business is transacted.
- (2) At peak periods -- particularly those when a large volume of applications are on hand for companies whose employees are purchasing under the payroll savings plan -- it takes a person 10 to 15 days to obtain his bond. The three Federal Reserve Banks standing at the top of Table I attached were apparently in the midst of such peak periods last Friday morning.

Please see that Bell & Graves get copies of this letter.

copies furnished Bell & Graves 5/26

Secretary Morgenthau - 2

- (3) A few corporation issuing agents are taking a month to deliver bonds purchased by employees participating in the payroll savings plan (Table II). Most corporations are able to deliver bonds purchased by such employees within 2 weeks after payment has been completed, however, and a few corporations are able to deliver the bonds the very same day the payments are completed. Some of these last-mentioned corporations, it appears from the Federal Reserve Bank reports, expedite delivery by inscribing the bonds before the deduction which constitutes the final payment has been made from the employees' salaries.

In submitting the data requested, the Federal Reserve Banks suggested that a great many technical details prevented them and the corporation issuing agents from issuing savings bonds within a shorter period of time. In this connection, it may be noted that here in the Treasury 7 days is the normal period that elapses between the time when payment is completed by an employee on his bond and the bond is delivered to him. A single bond could be issued much more rapidly but a procedure capable of handling a large volume of bonds requires a great many technical safeguards, each one of which contributes to the delay in the issuance of the bond.

There will be another survey, similar to the one made on May 15, made as of May 22. In this connection, the Federal Reserve Banks of New York, Philadelphia and Cleveland telephoned or wired the Treasury asking that they be permitted to avoid contacting corporation issuing agents for information on the period of time it takes to issue savings bonds. The Reserve banks are strongly of the opinion that (1) a number of corporations who are now issuing agents will refuse to issue bonds if they know the Treasury will check up on them, and (2) the possibility of such check-ups will prevent many corporations who are not issuing agents from becoming qualified.

Attachments

Table I

Approximate Number of Days it Takes a Person to
Receive a War Savings Bond Issued by a
Federal Reserve Bank ^{1/}

(On the basis of a survey made Friday, May 15, 1942)

Federal Reserve Bank	Number of days ^{1/}	Explanation offered by banks taking more than 7 days
Richmond.....	15	Usual period is 8 days. Day of survey happened to include bonds issued on a large order, the applications accompanying which included a great many errors in inscriptions.
Philadelphia....	10	Payroll savings applications take 10 days. Other applications take 7 days.
San Francisco...	10	Delay due to fact bank handled large payroll savings orders during the period.
Chicago.....	8	
Dallas.....	8	
Boston.....	8	
New York.....	7	
Kansas City....	6	
Cleveland.....	5	
Minneapolis....	4	
Atlanta.....	4	
St. Louis.....	4	

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

May 21, 1942

^{1/} Allows 2 days for period in the mails.

Longest Period of Time It Might Take an Employee of a Selected Group of Corporations to Receive His War Savings Bond Purchased Under the Payroll Savings Plan and Issued by His Employer.

(On the basis of a survey made by the Federal Reserve Banks on May 15, 1942)

Name of company and location	: Maximum num- : ber of days : : it might take : : to receive : : bond :	Explanations submitted by the Federal Reserve Banks
1. Western Union Telegraph Co., Kansas City, Mo.	33	
2. Kansas City Southern Railway, Kansas City, Mo.	30	Company will issue on June 15 the bonds for which payments were completed on May 15 and May 31.
3. A corporation selected by the Federal Reserve Bank of New York	21	Company issued on May 15 bonds for which payments were completed on April 24.
4. A corporation selected by the Federal Reserve Bank of San Francisco	20	Minimum period is 15 days.
5. General Electric Supply Corp., Richmond, Va.	15	Company will issue on May 31 the bonds for which payments were completed on May 15 and May 31.
6. Bell Telephone Co. of Pennsylvania, Philadelphia, Pa.	14	Company will issue on June 14 the bonds for which payments were completed on May 31.
7. Brown and Bigelow, St. Paul, Minn.	10	Company issued on May 15 bonds for which payments were completed on May 5.
8. Emerson Electric Mfg. Co., St. Louis, Mo.	9	
9. Sinclair Refining Co., Kansas City, Mo.	9	Minimum period is 5 days.
10. A. C. Lawrence Leather Co., Peabody, Mass.	7	Company hopes to improve the service.
11. Ash Grove Lime & Cement Co., Kansas City, Mo.	7	Wages earned by employees of this company are not available until 5 days after pay period closes so employee gets his bond only 2 days after he gets his pay.
12. Philco Corporation, Philadelphia, Pa.	7	Ditto.

(continued)

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Longest Period of

His War Savings Bond Purchased Under the Payroll Savings Plan and Issued by the

(On the basis of a survey made by the Federal Reserve Banks on May 15, 1942)

(Continued-2)

Name of company and location	: Maximum num- : ber of days : it might take : to receive : bond	Explanations submitted by the Federal Reserve Banks
13. Crown Drug Co., Kansas City, Mo.	6	
14. St. Louis Independent Packing Co., St. Louis, Mo.	6	
15. Texas and Pacific Railway, Dallas, Texas	6	
16. Neiman Marcus, Dallas, Texas	4	
17. Sears Roebuck Co., Dallas, Texas	4	
18. Fred Wolferman Inc., Kansas City, Mo.	4	
19. Theo. Hamm Brewing Co., St. Paul, Minn.	4	
20. Campbell Soup Co., Camden, N. J.	4	In some instances delivery is made same day payment is completed.
21. A corporation selected by the Federal Reserve Bank of New York	3	
22. Sears Roebuck Co., Minneapolis, Minn.	2	
23. Commander-Larabee Milling Co., Kansas City, Mo.	1	
24. Cowden Manufacturing Co., Kansas City, Mo.	0	Bonds delivered day payment is completed.
25. American Refrigerator Transit Co., St. Louis, Mo.	0	Ditto.
26. Miller & Rhoads Inc., Richmond, Va.	0	Ditto.
27. A corporation selected by the Federal Reserve Bank of New York	0	Ditto.
28. Holtzer Cabot Electric Co., Roxbury, Mass.	0	Ditto.
29. Eastern Gas & Fuel Associates, Boston, Mass.	0	Ditto.

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 25, 1942

TO Secretary ~~Wormenthau~~

FROM Mr. Hass

Subject: Operation of the payroll savings plan in 12,295 companies in April.

1. The attached table, summarizing the operations of the payroll savings plan in 12,295 companies during April, covers about 40 percent of the persons employed by all organizations exposed to the plan in the middle of that month. The data shown have been submitted to the Treasury during the past 7 weeks in response to your monthly letter to companies having the plan requesting information on the progress of the plan in their organizations.

2. The 12,295 companies reporting to the Treasury for April employed 8.2 million persons, some 56 percent of whom actively participated in the payroll savings plan during the month of April. In the aggregate, these persons authorized their employers to deduct approximately 4.9 percent of their pay during the month of April for the purpose of accumulating funds for the purchase of war savings bonds. On the average, this amounted to \$8.31 for each one of the persons participating, an amount sufficient to permit the purchase of one \$25 bond every 10 weeks.

3. On the basis of the application of the foregoing figures to the entire 21 million persons reported to have been exposed to payroll savings plans in the month of April, it is estimated that approximately 11,750,000 persons had funds deducted from their pay for the purchase of war savings bonds and that the aggregate amount of such deductions was approximately \$95 million. As a result of the lag between the time that deductions are made and bonds are actually purchased from the funds accumulated, the total purchases of war savings bonds under the payroll savings plan during April, it is estimated, amounted to only about \$65 million.

4. On previous occasions tables similar to the attached have been transmitted to you covering the operations of the payroll savings plan in December, January, February and March. These tables covered a smaller number of companies than appear

Secretary Morgenthau - 2

on the table attached, but the proportions of the total number of persons exposed to the plan in those months that were covered were roughly the same as in the present table, i.e. about 40 percent. A comparison of the percentages and the per capita figures (rather than the absolute figures) therefore, will provide an overall picture of the progress made during the past five months in bringing up (1) the percent of participation in the plan and (2) the per capita amount of salary deducted once the plan has been installed. They will also provide a cue to the distance that still has to be covered to attain the goal that has been set for the War Savings Bonds Sales program. The figures are shown below:

	: Percent of : Employees : Participating	: Percent of : Pay of Partici- : pating Employ- : ees Deducted	: Average Deduction : Per Employee : Participating
December.....	21.4	4.1	\$ 7.10
January.....	37.1	4.5	7.28
February.....	46.5	4.8	7.69
March.....	51.5	4.9	8.08
April.....	55.9	4.9	8.31
May.....			
June.....			
July.....			
Goal.....	100%	10%	\$17.00

Summary of the Operation of Payroll Savings Plans in April 1942
 (As reported to the Treasury by 12,295 companies participating in
 the plan in that month)

Size of company	Number of companies reporting	Aggregate number of employees exposed	Aggregate number of employees participating in payroll savings plans	Percentage of employees participating	Aggregate payroll of employees exposed	Aggregate amount of deductions from pay	Percentage of aggregate pay deducted	Approximate aggregate payroll of employees participating	Percentage of aggregate pay of participating employees deducted	Average deduction for employees participating in April
Under 100 employees	3,798	183,610	129,229	70.4	27,786,452	1,054,305	3.8	19,561,662	5.4	8.16
100 - 499 employees	5,755	1,310,455	787,645	60.1	191,108,200	5,866,606	3.1	114,856,028	5.1	7.45
500 - 999 employees	1,435	983,117	551,903	56.1	152,486,607	4,190,761	2.7	85,544,987	4.9	7.59
1,000 - 4,999 employees	1,091	2,198,561	1,184,213	53.9	359,556,330	9,319,402	2.6	193,800,862	4.8	7.87
5,000 - 9,999 employees	124	857,120	474,670	55.4	154,661,313	4,432,319	2.9	85,682,367	5.2	9.34
10,000 - 19,999 employees	52	735,412	394,714	53.7	133,818,981	3,273,499	2.4	71,860,793	4.6	8.29
20,000 and over	40	1,953,502	1,076,877	55.1	367,022,820	10,071,090	2.7	202,229,574	5.0	9.35
Total - All companies	<u>12,295</u>	<u>8,221,777</u>	<u>4,599,251</u>	<u>55.9</u>	<u>\$1,386,440,703</u>	<u>\$38,207,982</u>	<u>2.8</u>	<u>\$775,020,353</u>	<u>4.9</u>	<u>\$8.31</u>

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

May 25, 1942.

May 25, 1942

TO: HAROLD N. GRAVES
SUBJECT: PROGRESS REPORT FROM WAR SAVINGS STAFF

PAYROLL SAVINGS

The Payroll War Savings Plan has now been adopted by 381,398 firms. A total of 19,998,000 employees, or 66 per cent of the 30,400,000 employees of private industries throughout the nation now may purchase War Savings Bonds through the War Savings Plan.

In addition, 1,481,195, or 34 per cent of the 4,400,000 of Federal, State, and Local Governments now have the Payroll Savings Plan available to them.

The following states now report 90 per cent or more of their over 500 employee firms as having installed the Payroll War Savings Plan: Colorado, Idaho, Kansas, Maine, Minnesota, Montana, New Hampshire, New Mexico, Oregon, Pennsylvania, South Carolina, South Dakota, Vermont, Virginia and Wyoming. Alaska reports all three firms with over 500 employees as having installed the Payroll Savings Plan.

WJ
5/25/42 GJM

ORGANIZATION

The following statistical estimates were made on May 19, 1942:

1. Paid Personnel.....	800
2. Members of State Committees.....	1503
3. County chairmen.....	2845
4. Count of committee members in all states not including the three classes above.....	200,000
(This figure was arrived at on the basis of returns of 39 states - 78% of the population.)	
5. The above estimates do not include volunteers such as:	
House-to-house canvassers for	School teachers and
County Committees	students serving as
Pledge Campaign Minute Men	Group Agents
Speakers Committees	Employees of banks and
Life Underwriters	other Issuing Agents
Women actively at work in	devoting substantial
Sales Booths	portions of their time
Retailers Committees	to Payroll and Bank Draft
Retail Store Stamp Booth Salesgirls	Plans
Investment Brokers	Issuing Agents
American Legion	representatives
Spanish War Veterans	News Boy Carriers
USDA County Agents	Mail Carriers
Organized Church and Club Groups	Negro Committees
Foreign Language Group Workers	Radio, Movie & Press
Special Payroll Committees	Groups
6. Total Bond Sales to May 1.....	\$5,400,000,000.
7. Total Stamp Sales to May 1.....	217,572,300.
8. Income receivers.....	50,000,000.
9. Employees we expect to reach under payroll plans	25,000,000.
10. Other persons to be reached by systematic canvass of United States.....	25,000,000.

NEWSPAPER CARRIER SALES

A total of 294,534,003 ten-cent War Stamps, or their equivalent in Bonds, or Stamps of larger denominations, have been sold to date by the newspaper carrier boys of 882 newspapers. This represents an increase in the number of stamps sold since May 14 of 14,747,125.

RADIO

Seven special broadcasts emphasizing War Bonds are scheduled for United Nations Day, June 14. The programs which will feature the War Savings theme are:

"Manhattan Merry-Go-Round", NBC, 9:00-9:30 P.M., drama
Wheeling Steel, Blue, 5:30-6:00 P.M., Neo-classical music
Tommy Dorsey, Blue, 8:00-8:30 P.M., popular music
Dr. Harry Fosdick, Blue, 4:00-4:30 P.M., religious program
Full-hour all-star broadcast from West Coast, network
and time not yet set.

"Plays for Americans", dramatic, NBC, 5:30 P.M.

Dr. Charles E. Fuller, Mutual Broadcasting System, 9:00 P.M.
old-fashioned revival.

The Payroll Savings Plan has been installed by 484 radio stations throughout the nation, of which 386 report 100% participation by employees.

RADIO (Continued)

Admiral Conard, Chairman of the Interdepartmental Committee for the Voluntary Payroll Savings Plan for the purchasing of War Savings Bonds will broadcast on the "New York Government" program Monday, May 25, from 8:30-8:45 P.M., over station WWDC.

The Audichron Company reports a monthly average of 13,750,000 War Bond messages were given to telephone subscribers who dialed Audichron for the time of day in 19 states.

Bulova is giving 25 per cent of its radio time -- a total of 7,000 "time signals" per week on all stations over the country.

PRESS

Through arrangements made by Press Section, Life Magazine this week reports on the Minute Man Campaign in Davenport, Iowa, and Rock Island, Illinois. Copy attached.

Collier's in its current issue carries both an editorial on War Bonds as an investment and an item on the new Slapajap cocktails. Marked copy attached.

Also attached are magazine covers of Charm and Woman's Home Companion, showing Bond and Stamp mentions.

FOREIGN LANGUAGE PRESS

All daily and weekly foreign language publications on our exchange published War Bond material in connection with "I Am An American Day", Sunday, May 17. Sample copy attached.

Five editorials on War Bonds written by leading citizens of five foreign language groups were sent out this week. Copies attached. At our suggestion one Chinese and one Greek newspaper contributed original War Bond cartoons. Copies attached.

Dr. Lewis Stein, author of the best seller "I was in Hell with Hitler", has submitted a War Bond editorial to be sent to Foreign Language and Religious Publications.

RELIGIOUS PRESS

The David C. Cook Publishing Company of Illinois, publishers of Sunday School and Bible literature and periodicals, with a total circulation of more than one million, is now carrying War Bond copy and promises to increase cooperation in the future.

The Executive Committee of the Federal Council of Churches of Christ in America, with a membership of 25,000,000, adopted a resolution on May 15th urging Christians everywhere to buy Bonds.

COMPANY PUBLICATIONS

A special visual presentation of the War Savings Program was presented to more than 500 company publication editors on May 14, in connection with the annual convention of the National Council of Editors Association.

More than 150 requests were received from editors present for a complete transcript of the presentation. They wanted these, the editors said, to bring the story directly to the attention of their chief executives for the purpose of showing them how important a comprehensive program on War Bonds and Stamps is to the nation.

FARM PUBLICATIONS

To date 18 publications with a total circulation of 6,000,000 readers have advised that they will publish our farm advertisement, "Winning the War Begins on the Farm", in forthcoming issues. This advertisement was mailed to them on May 15.

MINUTE MAIDS

Jetsy Parker and Dorothy Schoemer, M-G-M starlets who are touring the nation as Minute Maids in a campaign to sell sufficient Bonds and Stamps to raise \$3,500,000 -- the cost of a destroyer -- were in Washington Saturday, May 23. They were photographed at the Capitol and on the Treasury steps by both still and newsreel photographers. The Minute Maids reported that

MINUTE MAIDS (Continued)

thus far they have sold \$2,200,000 worth of Bonds and Stamps and they expect to "go over the top" after visiting New York City.

JAMEZ INDIANS

The Jamez Indians, who are touring the nation in the interest of the War Savings Program through the courtesy of the Santa Fe Railroad, appeared in Boston on May 18, 19, and 20, and in St. Louis on May 22 and 23.

MOTION PICTURES

The special Payroll Savings motion picture being filmed at the International Harvester plant in Chicago will be ready for release shortly. The revised script now has the approval of International Harvester officials and of the Treasury.

Sales of United States Savings Bonds
From May 1 through May 23, 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	May 1	May 1	to Date	May 1	May 1	May 1	to Date	May 1	May 1	May 1	to Date
Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of	
	Date	Date	Quota		Date	Date*	Quota		Date	Date	Quota	
1	\$ 12.7	\$ 12.7	\$ 14.0	90.7%	\$ 7.3	\$ 7.3	\$ 12.0	60.8%	\$ 20.0	\$ 20.0	\$ 26.0	76.9%
2	11.6	24.5	25.7	94.6	7.9	15.2	21.4	71.0	19.4	39.4	47.1	83.7
4	22.3	46.5	47.8	97.3	10.3	25.5	39.4	64.7	32.6	72.0	87.2	82.6
5	8.9	55.5	57.8	96.0	7.6	33.1	49.3	67.1	16.6	88.6	107.1	82.7
6	18.4	73.8	70.5	104.7	15.6	48.8	64.9	75.2	34.0	122.6	135.4	90.5
7	23.2	97.0	84.0	115.5	12.1	60.8	76.9	79.1	35.3	157.9	160.9	98.1
8	17.2	114.2	98.0	116.5	6.4	67.2	86.1	78.0	23.6	181.4	184.1	98.5
9	14.5	128.7	109.7	117.3	5.6	72.8	92.6	78.6	20.0	201.5	202.3	99.6
11	23.3	152.0	131.8	115.3	8.1	80.8	104.2	77.5	31.3	232.8	236.0	98.6
12	9.4	161.3	141.8	113.8	4.6	85.4	110.6	77.2	14.0	246.8	252.4	97.8
13	15.8	177.1	154.5	114.6	9.0	94.4	120.8	78.1	24.8	271.5	275.3	98.6
14	16.9	194.0	168.0	115.5	7.7	102.1	129.3	79.0	24.6	296.2	297.3	99.6
15	14.9	208.9	182.0	114.8	6.8	108.9	136.5	79.8	21.7	317.9	318.5	99.8
16	14.3	223.2	193.7	115.2	5.2	114.1	142.1	80.3	19.5	337.4	335.8	100.5
18	24.3	247.5	215.8	114.7	9.4	123.5	153.0	80.7	33.7	371.1	368.8	100.6
19	9.8	257.4	225.8	114.0	4.2	127.7	159.2	80.2	14.0	385.1	385.0	100.0
20	13.7	271.1	236.5	113.7	11.2	138.9	169.6	81.9	24.9	410.0	408.1	100.5
21	19.4	290.5	252.0	115.3	10.6	149.5	178.4	83.8	30.0	440.0	430.4	102.2
22	19.1	309.6	266.0	116.4	7.1	156.6	186.1	84.1	26.2	466.2	452.1	105.1
23	14.1	323.7	277.7	116.6	4.8	161.4	192.3	83.9	18.9	485.1	470.0	103.2
25			299.8				204.9				504.7	
26			309.8				212.5				522.3	
27			322.5				226.2				548.7	
28			336.0				238.7				574.7	
29			350.0				250.0				600.0	

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

May 25, 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.

* Takes into account both the daily trend during the week and the monthly trend during the month.

Regraded Unclassified

Sales of United States Savings Bonds
From May 1 through May 23, 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		Quota		Actual Sales		Quota		Sales	
	Daily	to Date	to Date	as % of Quota	Daily	to Date	to Date*	as % of Quota	Daily	to Date	to Date	as % of Quota	Daily	to Date
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	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	16.9	194.0	168.0	115.5	7.7	102.1	120.6	84.7	24.6	296.2	288.6	102.6		
15	14.9	208.9	182.0	114.8	6.8	108.9	129.6	84.0	21.7	317.9	311.6	102.0		
16	14.3	223.2	193.7	115.2	5.2	114.1	136.6	83.5	19.5	337.4	330.3	102.1		
18	24.3	247.5	215.8	114.7	9.4	123.5	150.1	82.3	33.7	371.1	365.9	101.4		
19	9.8	257.4	225.8	114.0	4.2	127.7	157.7	81.0	14.0	385.1	383.5	100.4		
20	13.7	271.1	238.5	113.7	11.2	138.9	170.3	81.6	24.9	410.0	408.8	100.3		
21	19.4	290.5	252.0	115.3	10.6	149.5	180.8	82.7	30.0	440.0	432.8	101.7		
22	19.1	309.6	266.0	116.4	7.1	156.6	189.8	82.5	26.2	466.2	455.8	102.3		
23	14.1	323.7	277.7	116.6	4.8	161.4	196.8	82.0	18.9	485.1	474.5	102.2		
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 25, 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.

* Takes into account daily trend within the week, but does not take into account the trend by weeks during the month.

Regraded Unclassified

May 25, 1942

Dear Eleanor:

I received your message that you wanted a memorandum from me explaining the Treasury's recommendation on joint income tax returns.

This inquiry gives me an opportunity to bring several matters to your attention. I am enclosing herewith a copy of United Press ticker item reporting on your press conference of the 20th. I would like to clear up the two points which you were reported as having discussed at this press conference.

In answer to the first one in regard to delay in paying government employees, I am enclosing herewith a copy of a letter which I wrote to you in regard to this subject. I would like to draw your attention to the fact, which I pointed out in this letter, that the delay is not with the Treasury but with these various agencies, and I think you will remember the troubles you had in OCD in getting new employees paid.

On Point Two, in regard to our informing you on the proposed joint income tax returns, I wrote you on this subject on April 21st, and I am enclosing a copy of this memorandum because evidently you never received it.

In case you did not get our telephoned reply on your question in regard to the \$25,000 limit, I am sending you a written memorandum covering this subject.

- 2 -

After reading these communications, if you still have any questions that you care to ask me, please feel free to do so.

Affectionately yours,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

S.S. Agent. 4:35

Mrs. Roosevelt on pay checks & taxes
MRS. ROOSEVELT EXPRESSED MILD CRITICISM OF AGE LIMITS GOVERNING ENLISTMENT IN THE WOMEN'S AUXILIARY ARMY CORPS.

SHE FAVORS 55 AS THE MAXIMUM AGE RATHER THAN THE 45-YEAR LIMIT WHICH HAS BEEN SET. MANY OLDER WOMEN WOULD DO WORK WHICH WOULD RELEASE SOLDIERS FOR ACTIVE DUTY, SHE TOLD HER PRESS CONFERENCE.

MRS. ROOSEVELT ALSO EXPRESSED THE HOPE THAT THE WAAC WOULD NOT ELIMINATE OLDER WOMEN IN FAVOR OF YOUTH OR TURN DOWN QUALIFIED WORKERS FOR SLIGHT PHYSICAL DISABILITIES.

MRS. ROOSEVELT DESCRIBED NEW DORMITORIES WHICH ARE TO BE BUILT FOR GIRL WAR WORKERS. SEVEN THOUSAND ROOMS ARE TO BE PROVIDED IN A LONELY LOCATION NEAR ARLINGTON CEMETERY BUT MRS. ROOSEVELT SAID SHE HAD BEEN ASSURED THAT THERE WOULD BE ADEQUATE POLICE PROTECTION.

FURNITURE IN ROOMS WILL BE A DAYBED, EASY CHAIR, FLOOR LAMP, SMALL TABLE AND CHEST OF DRAWERS. CAFETERIAS WILL BE OPERATED IN CONJUNCTION WITH THE DORMITORIES, AND RATES WILL BE NOT MORE THAN \$50 A MONTH FOR ROOM AND TWO MEALS A DAY.

BETWEEN WINGS OF THE BUILDINGS WILL BE BADMINTON AND TENNIS COURTS FOR OUTDOOR RECREATION.

MRS. ROOSEVELT SAID SHE HAD INTERVENED WITH SECRETARY MORGENTHAU IN BEHALF OF WAR WORKERS, TO SHORTEN THE LENGTH OF TIME BEFORE THEY GET THEIR FIRST PAYCHECKS.

MRS. ROOSEVELT REVEALED ALSO SHE HAD ASKED MORGENTHAU FOR ADDITIONAL INFORMATION ON THE PROPOSED JOINT MANDATORY INCOME TAX FOR HUSBANDS AND WIVES. MEANWHILE, SHE SAID SHE WAS WITHHOLDING AN OPINION.

3/20--R218P

May 13, 1942

Dear Eleanor:

The situation to which you refer in your letter of May 9th, as to delays in receiving their pay experienced by new employees coming to work in Washington, is not due to any Treasury inaction but to the failure of administrative agencies to place the employees' names on the payrolls and to certify them to the Treasury Division of Disbursement.

I am told that the Office for Emergency Management has had difficulty in this respect and it is probably true of other newly created war agencies. It is a situation which should be corrected and I have directed that it be taken up with the various agencies concerned.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

"P.S.: Thank you for bringing this to my attention."

Mandatory Joint Returns

The Treasury's purpose of making joint tax returns mandatory is to equalize tax burdens among families. A family with an income of \$5,000 earned or received only by the husband -- or only by the wife -- is affected by a dollar of taxes in the same way as a family with the same total income earned or received by husband and wife equally. If joint tax returns are required, both families pay the same tax, but if separate returns are allowed the first family pays a substantially larger tax than the second.

About 9 couples out of 10 have been filing joint returns right along even though they have had the option of filing separate returns. Separate returns can save taxes only for a small minority of married couples where both husband and wife receive substantial amounts of income.

It shows a lack of understanding of the Treasury proposal to say that the elimination of this tax advantage of the relatively few undermines women's rights. The incomes of the husband and wife are added for the purpose of computing the total family tax. The total tax is then divided into shares to be paid by the husband and wife in proportion to their respective incomes. Neither spouse has a favored position. Each pays a somewhat larger tax than if separate returns were filed, but this has nothing to do with the sex of either spouse. There is no subjugation of the wife, and the larger tax she-- and the husband -- has to pay does not deprive her of any rights or individual status. She is not made liable for her husband's tax. She herself simply pays a higher tax because she has a better financial position from the realistic standpoint of the family economic unit than the single woman with the same amount of income, and by doing so she assumes her fair share of the tax burden.

Part of the proposal for mandatory joint tax returns enlarges the rights of the working wife by providing a special earned income credit to the spouse who earns the smaller income. This is something which should have been allowed before, regardless of joint returns, since in the lower income

- 2 -

families the wife who works outside the home is not available to render the same service to the family as she would if not employed outside. Extra expenses for a servant is necessitated. This is not very important if the family income is larger since a servant would probably be employed in any event, but it is very important for low income families. Great Britain, where joint returns have long been required, makes such an allowance.

The interests of the vast majority of the women in the United States would be promoted by mandatory joint returns, since their families are called on to pay the several hundred million dollars a year saved by a small minority through filing separate returns.

REP:HW
4/20/42

Statement by Randolph E. Paul
Tax Adviser to the Secretary of the Treasury,
to the Ways and Means Committee of
the House of Representatives, on
A War Supertax on Individual Incomes Above \$25,000

- - - - -

1. Introductory

In his message to the Congress on April 27, 1942, the President said: "...discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year."

There can be no 'equality of privilege' for which the President has called when some of our citizens are permitted to enjoy a luxurious standard of living while others in less fortunate circumstances are called upon to cut their living standards to a bare subsistence level. The great masses of our people will more cheerfully bear a substantial reduction in standard of living if they know that no group is being favored; that rich and poor alike are giving up the comforts of peacetime in order that we may more effectively

- 2 -

prosecute the war. A limitation on individual income would be a very helpful step in assuring the masses of people that there is to be 'equality of privilege' in fighting this war. 1/

2. Proposed Tax

To implement the President's proposal, the Treasury now recommends the enactment of a 100 percent war supertax on that part of the net income after regular income tax which exceeds \$25,000.

Under the existing rates for the regular income tax, this supertax would affect only those persons whose incomes before tax exceeded about \$40,000. Under the income tax rates tentatively adopted by the House Ways and Means Committee, the supertax would affect persons whose incomes before tax exceeded about \$50,000. With mandatory joint returns, the supertax would fall on approximately 30,000 single

1/ Great Britain has recognized that high tax rates, accomplishing a practical limitation upon individual incomes, may make an important contribution to the maintenance of public morale and thus contribute to the prosecution of the war. In that country under wartime tax rates an individual would have to receive about \$500,000 in order to have \$25,000 left after taxes, and an additional \$100,000 before taxes would add only \$2,500 to his income after tax.

- 3 -

persons and married couples and is estimated to yield about \$350 million, in addition to the revenue from the regular income tax as tentatively revised by the Ways and Means Committee.

3. Definition of the Taxpayer

A. Persons and married couples

For married couples the \$25,000, in our opinion, should apply to the married couple and not to each spouse. In any event, the limitation of income to \$25,000 after taxes should apply uniformly throughout the country. For this reason either (1) the married couple should be allowed a total of \$25,000, as we suggest, or (2) the husband and wife together should be allowed \$50,000, that is, \$25,000 for each, regardless of the actual division of income. Other procedures, for example, the provisions of existing law, would produce glaring discrepancies between families. The value of residence in community property States would increase still further, while in other States income from property which can be divided

- 4 -

between husband and wife by transfers would become more valuable relatively to income from salary, professional practice, or business.

The recent action of your Committee in approving mandatory joint returns will facilitate the application of the supertax to the combined income of the two spouses. Despite mandatory joint returns, some taxpayers could avoid some of the 100-percent supertax by transferring income-producing assets to their children and to other close relatives who could be expected to use the income as the donors desired. To meet this problem, the Treasury recommends that for purposes of the temporary supertax such gifts not be recognized and that the income from them be taxed to the donors.

B. Trusts and estates

For purposes of the regular income tax, trusts and estates are in some cases subject to the individual income tax, regardless of the number of beneficiaries and the income of

- 5 -

each from other sources. However, since the \$25,000 limit is directed toward the "American citizen," that is, the individual himself, the supertax must of necessity look beyond estates, trusts, and similar legal entities, to the real person concerned, the beneficiary. Where this is not practicable, the Treasury recommends that the supertax be made applicable to the fiduciaries.

4. Income Subject to Tax

The Treasury recommends that for purposes of the supertax, net income be defined to include all income which is received by the taxpayer during the taxable year.

A. No tax exemptions

All tax exemptions should be removed for purposes of the supertax even though they remain for the regular income tax. For example, there can be no doubt that presently tax-exempt State and local interest should be included in taxable income for purposes of the supertax. The outstanding supply of State and local securities is

- 6 -

so large that, if this were not done, persons affected by the supertax could substitute tax-exempt securities for the larger part of their taxable securities and thereby nullify the effect of the supertax. The President specifically referred to this exemption when he said, "It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxation while we are at war." Of course, the contractual exemption formerly accorded certain Federal securities must be respected for purposes of this supertax as for all other taxes.

B. Pension trusts

For purposes of the supertax, the present treatment of pension trusts would need to be revised in such a manner as to preclude corporation executives from taking portions of their compensation in the form of contributions to pension funds rather than current salary, which would defeat the purpose of the supertax.

- 7 -

C. Undistributed corporation profits

The imposition of the supertax would add to the present inducements for corporations to withhold profits from distribution to stockholders. Some provision would need to be made that when dividends declined relative to corporate profits after taxes, an appropriate portion of the undivided profits would be taxed to the stockholder; or else an offsetting tax would need to be placed on the corporation to induce profit distribution. One of these alternatives would be especially necessary where persons subject to the supertax were in control of the corporation.

D. Proprietorship and partnership business income

The individual income tax applies to the profits from a business run as an individual proprietorship and to the share of a person in the profits of a partnership whether or not the profits are withdrawn for personal use. The application of a 100 percent tax

- 4 -

might impose hardship on such businesses and might impair their growth and endanger their competitive position.

Accordingly, for the purposes of the supertax it might be desirable to exclude business income not withdrawn for personal use. To prevent tax avoidance by this means, however, provision might be made that no larger proportion of the profit could be so excluded each year than was retained in the business on the average during a base period. This would permit normal capital growth and payment of business debts without unduly encouraging tax avoidance.

K. Averaging over several years of concentrated incomes

Incomes that are concentrated to an unusual extent in the taxable year, for example, those in the form of fees, patent rights, commissions, etc., would require special treatment to average the income over several years as is now done for income tax computation in the case of certain compensation paid on completion of

- 9 -

work which was done over a period of five years. The law provides that the tax on such compensation shall not be greater than if it had been received over the period during which the work was done.

F. Charitable contributions

Charitable contributions present a question. Such contributions are deductible up to 15 percent of net income. Since contributions now average much less than the allowable 15 percent, the supertax would operate to increase them substantially since for persons with incomes subject to the supertax contributions up to 15 percent of net income would be costless. While the increase in contributions would be in effect a means of tax avoidance, the results in general would not necessarily be undesirable. It is not suggested that the deduction for charitable contributions be limited beyond the limitations provided under present law.

5. Relief for Persons with Debt Commitments

The imposition of the \$25,000 limit would, of course, necessitate substantial readjustment in the

- 10 -

patterns of living of the persons affected. This is in part the very purpose of the limitation. A nation waging total war cannot afford to use its resources to provide luxurious living for a few. In many cases, however, the imposition of the super-tax would result in special hardships because of the commitments, especially debts, which persons have incurred and which, if they do not meet, will result in substantial losses to them.

The great difficulty with any general deduction for debt or other fixed commitments is the discrimination which results. Most large debts are incurred to make investments of one kind or another. One person chooses to build up his estate by borrowing money to buy some earning asset and gradually paying off the debt from the earnings, while another person does not borrow, but reinvests his income from year to year. The allowance of debt as a deduction would discriminate in favor of the first man as opposed to the second since the former would be permitted to build up his estate free from supertax, while the latter would be prevented from doing so.

- 11 -

Fortunately, the cases in which debt commitments would raise serious problems would not be numerous. Only commitments to retire principal would be affected, since interest on indebtedness is deductible in computing taxable income. Persons with incomes large enough to be affected by the proposed supertax ordinarily have a good deal of flexibility in their financial arrangements because of their assets and credit standing. The exemption of a portion of the business income of proprietorships and partnerships previously suggested would meet many situations where indebtedness was pressing.

Nevertheless, there would undoubtedly be some cases where fixed commitments of various kinds would be very difficult to meet and might require a measure of relief under the supertax. For example, many taxpayers, even some of those with large incomes, neglected to set aside last year the funds necessary to meet the taxes on last year's income. The imposition of the supertax might make it entirely impossible for such people to accumulate funds to pay taxes on the current year's income and have anything at all

- 1 -

left over to cover living expenses. However, to allow a deduction only for those taxpayers who had not set aside funds to pay their taxes, while not allowing an equal deduction to the more provident, would be discriminatory. Accordingly, it is suggested that for the first year only the tax liability on the income of the previous year be allowed as a deduction in computing income subject to supertax. Thereafter taxpayers would be on warning to accumulate funds in advance to pay their taxes.

There are other cases of indebtedness which might cause hardship in a similar way. Thus, debts for unusual medical expenses might be a very heavy burden under the supertax. It would be desirable in this and other cases to allow a deduction for the payment of indebtedness.

To assure a minimum of hardship without too much discrimination, the most workable plan appears to be to allow a deduction for debt up to perhaps 15 percent of the income after present income taxes. While this deduction would be intended for the purpose of relieving the hardship of debt, it would be

- 13 -

made available also to people who had no debt commitments, provided it was spent in meeting other financial commitments, such as insurance premiums on policies taken out in the past, or was invested in non-negotiable Federal securities.

It is not likely that there would be serious hardship not remedied by these provisions. However, if the Committee should feel that serious hardship would still remain, provision might be made for an appropriate agency of the Federal Government to make loans in cases of demonstrated hardship. These loans would not be in excess of the supertax and would be for the purpose of enabling the taxpayers to refinance their fixed commitments.

6. Conclusion

To summarize, the Treasury proposes that in harmony with the President's message to Congress of April 27, a supertax of 100 percent be imposed on that part of net income remaining after other taxes which exceeds \$25,000. I have discussed the more important problems which would be involved in making the tax effective and some of the hardships

- 14 -

which the tax might impose, and have made suggestions for meeting these problems.

Fundamentally, the purpose of this proposed tax is to promote the war effort. This it would do by assuring the masses of people that there is to be relative 'equality of privilege' in fighting the war; that all are to share in the sacrifices it imposes in an equitable manner. I recommend the proposed tax for your careful consideration.

RB:mv 5/22/42

Statement of Mr. Randolph Paul on mandatory
joint returns for individuals

The subject of mandatory joint returns for individuals has been discussed thoroughly before this committee both last year and this year. I do not feel that any beneficial result would follow from further extensive discussion. It will perhaps be useful to the committee to summarize briefly the considerations in favor of mandatory joint returns and to refer to some of the basic facts contained in the attached tables.

(1) The basic reason for requiring joint returns is that a family is, generally speaking, an economic unit. The income of the husband and the income of the wife both join to support the family as a whole. The ability to pay, which is represented by any given total amount of family income, is the same, whether it is received by one spouse or both spouses. To allow the taxes of those families in which both husband and wife receive income to be substantially less than the taxes of those families in which the same total amount of income is received by one spouse discriminates against the latter type of family (except insofar as the fact that both spouses are working may increase the necessary expenses of running the home).

(2) In the eight community property States lower Federal income taxes are imposed on incomes than in the remaining States. After careful examination of all the legal arguments, it is our firm conviction that the difference in the rights of wives to their husbands' earnings in community and non-community-property States is not of such a character as to justify the existing tax differential. This differential could be removed by separate legislation. Its removal through mandatory joint returns would completely eliminate any basis for the community-property States to claim that correcting the present inequitable situation would discriminate against their taxpayers.

(3) In all States the capital, income, and expenses of husbands and wives can be adjusted with relative ease to give a minimum tax. This gives rise to a significant source of tax avoidance that would be removed by requiring joint returns.

- 2 -

(4) The attached tables present data having an important bearing on the subject of compulsory joint returns.

Table 1 shows, for 1939, the number of joint and separate returns of husbands and wives, by broad net income classes. This table shows that the great mass of taxpayers file joint returns except for taxpayers with large incomes. The benefits of separate returns are limited to the larger incomes. In the income classes below \$6,000 there were fewer than one-tenth as many separate returns of husbands and wives as joint returns; in the income classes over \$6,000, on the other hand, there were more than half as many separate returns of husbands and wives as joint returns.

Table 2 shows the amount of net income reported on the returns, classified in the same manner as the returns themselves were in table 1.

In table 3 are shown figures for 1939, indicating that, in eight community-property States, the per capita net income on income-tax returns was slightly higher than in the non-community-property States, while the per capita Federal income tax was 25 percent lower in the community-property States than in the non-community-property States.

Table 4 records the number of couples filing joint returns and filing separate returns in each of the States. The percent of couples filing separate returns was much larger in every community-property State than in any non-community-property State, although in no State did more than one-sixth of the couples file separate returns.

Table 5 shows the maximum difference in Federal income tax under joint returns and under separate returns on combined family incomes of different sizes. These figures are shown both for the present law and for the Treasury proposal with the reduced personal exemptions. The difference in tax in some rate brackets runs as high as 54 percent under the present law and 30 percent under the Treasury proposal.

- 3 -

In table 6 is shown the revenue yield of the Treasury proposals with mandatory joint returns. These figures are comparable with the yield figures without joint returns, shown in exhibit 80, pages 202-203, in Treasury Data No. 9. With existing exemptions and with the Treasury rates the imposition of mandatory joint returns would increase the yield of the individual income tax by \$463.6 million while under the reduced Treasury exemptions and the proposed Treasury rates the introduction of mandatory joint returns would increase the revenue \$476.2 million. No figures are shown in these tables reflecting the tentative action of the committee in adopting a modified schedule of personal exemptions.

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- 3 -

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nr
5/26/42

338 cont-
to Mrs. Roosevelt

Informal Statement by Randolph E. Paul
to the Ways and Means Committee of
the House of Representatives, on
A War Supertax on Individual Incomes Above \$25,000
May 25, 1942

- - - - -

This is more than a moral question. It bears directly on the effectiveness with which we can mobilize the energy and the enthusiasm of the American people for winning this war. Specifically, it bears most directly of all upon the attitude of the men who work on the production line.

It may interest the Committee to know of a study made recently in cooperation with the War Production Board in two of the leading industrial areas of this country to determine workers' attitudes toward the war production effort. An attempt was made by careful interviewing to discover whether workers in these areas were heart and soul behind the production program, and if not, why not. The results were disturbing. They showed that the enthusiasm of the workers in war industries was only about half what it ought to be. There were various reasons for this lack of what might be called workers' morale, but most of them boiled down to one--namely, distrust of management. And one reason for this distrust which stood out above all others was the feeling, prevalent among 40 percent of the workers interviewed, that management was profiteering from the war effort, that the profits of business were utterly out of line with the sacrifices being asked of our people as a whole. There was no evidence of a spirit of "let George do it" in labor's attitude toward the war effort, but there was a decided attitude of "I'll do it gladly if George does it too."

I mention this study because I think it throws light on the motives behind the President's proposal to place a limit of \$25,000 on any individual's income. The Treasury is endorsing and recommending this proposal to you because we too believe that it goes to the heart of the present doubts and discontents among many of our industrial workers. Let us grant, for purposes of argument, that such a limitation would bring comparatively

- 2 -

little additional revenue to the Government, let us grant also that such a limitation upon the very highest income brackets would not have any material direct effect in checking inflation, yet the indirect effects of such a limitation would be beyond calculation. If it is true that American labor believes management is profiteering unduly, then anything that will remove such a feeling would make labor more willing to accept the stabilization of wages, the intensification of savings, the payment of higher taxes, the acceptance of rationing, and the other elements in the President's over-all program for combating inflation.

My own feeling is that this proposal of the President's was made with full knowledge and with the deepest seriousness as a measure vitally necessary for the effective prosecution of the war. The tax bill to be written by this Committee will call for great and unprecedented levies upon millions with very small incomes. I submit that your Committee will do well to consider this proposal earnestly and carefully, and for this reason we are submitting today an outline of the technical methods by which such a proposal could be carried out.

340 sent
to Mrs.
Roosevelt

May 23, 1942

MEMORANDUM FOR THE SECRETARY

Reference is made to my memorandum of May 20th, in which we outlined for Mrs. Roosevelt the relationship between the limitation of net income to \$25,000 and the limitation on charitable and educational contributions to 15 percent of income. The second point of my memorandum read as follows:

"With respect to the 15 percent charitable and educational deductions, a provision would be included which would prevent them from avoiding the \$25,000 limit by increasing their charitable gifts above what they have been giving in the past."

We believe this position with respect to charitable contributions should be modified so that the amount of contributions made in the past would not limit the contributions allowable for the future. Contributions would be allowed as a deduction up to 15 percent of income as now provided in the income tax law. This matter is covered in greater detail on Page 9 of our suggested statement to the Ways and Means Committee regarding the proposed supertax on incomes above \$25,000.

This change in position would encourage greater generosity to charitable and educational institutions since for persons subject to the supertax contributions up to 15 percent of income would be costless. The amount of increased contributions involved might be substantial since the average contributions reported on income tax returns total much less than 15 percent of income.

A.S.P.

May 23, 1942

MEMORANDUM FOR THE SECRETARY

Mr. Fitzgerald called this morning and told me that Mrs. Roosevelt had requested a statement of the Treasury reasons for the joint return proposal. Before preparing any such statement, I would like to discuss the matter with you. It may be that our previous memorandum on behalf of Mrs. Roosevelt will be sufficient. We could also furnish her with a copy of my statement before the Ways and Means Committee made at the beginning of the discussion of the subject in the Executive Session. This statement appears on Page 228 of the Executive Session record.

RST

TO: 4

342

Mrs. Klotz

Mr. Free at the White
House phoned over to
say that Mrs. Roosevelt
wants a written memo
outlining the Treasury's
reasons for advocating
Joint Income Tax Returns.

On clearing ^{this} with
the Secretary, I was
advised to pass the
message on to you

Rec'd May 23/1942 Fitz
10:35 AM.

From: MR. FITZGERALD

343

The information contained in this memo
v. telephoned to some one in Miss Thompson's
office by Mr. Fitzgerald.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

May 20, 1942.

A note has been handed to me by Mr. Fitzgerald, in which Miss Thompson, asking for Mrs. Roosevelt, wants to know if the proposed \$25,000 net income limit is the income allowed after taxes are paid, or if the 15 percent for charitable and educational purposes will still be deductible. These questions may be answered as follows:

- (1) The \$25,000 net income limit is after payment of taxes.
- (2) With respect to the 15 percent charitable and educational deductions, a provision would be included which would prevent them from avoiding the \$25,000 limit by increasing their charitable gifts above what they have been giving in the past.

RST

May 25, 1942.

MEMORANDUM FOR THE PRESIDENT:

The enclosed draft of a letter to Chairman Clarke of The Commission of Fine Arts has been prepared for your signature in accordance with your memorandum of May 20th.

The papers forwarded with your memorandum are herewith returned.

(Signed) H. Morgenthau, Jr.

n. m. c.

S. S. Agent 3:40 pm.

5/26/42

Copies to Thompson

My dear Mr. Chairman:

The copy of your letter of May 18th, which was forwarded to the White House by Secretary Casperer, addressed to the heads of departments and independent establishments, on the subject of medals and insignia, has come to my attention.

It is desirable that each such medal and insignia be designed and prepared, as you indicate, in a manner worthy of the service which it commemorates. It is also particularly desirable in these war days, with the great increase in the number of these medals and insignia, that they reflect the best possible design and workmanship, and I am sure your suggestions to the heads of departments and establishments will be helpful in this direction.

Sincerely yours,

Honorable Gilmore D. Clarke,
Chairman, The Commission
of Fine Arts,
Interior Department Building,
Washington, D. C.

WNT:of
5/25/42

COPY

THE COMMISSION OF FINE ARTS

Interior Department Building
Washington

May 18, 1942.

My dear Mr. Forster:

Chairman Clarke has asked me to send to you for your information the attached copy of a letter that has been sent to heads of departments and independent establishments of the Government on the subject of medals and insignia. It appears that numerous medals are contemplated for the present War, and the Commission of Fine Arts advises that they should be works of art.

Sincerely yours,

/s/ H. P. CAEMMERER

Secretary

Hon. Rudolph Forster,
The White House,
Washington, D.C.

COPI
The Commission of Fine Arts
Washington

May 18, 1942.

My dear Mr. Secretary:

The Commission of Fine Arts have noted that, since the attack on Pearl Harbor, several Bills have been introduced in Congress to authorize the presentation of medals. It is also noted that several Departments and independent establishments of the Government have undertaken to have designs prepared for medals.

This Commission respectfully call attention to the fact that by Executive Order, dated July 28, 1921, the President of the United States directs that "essential matters relating to the design of medals, insignia, and coins produced by the executive departments-----shall be submitted to the Commission of Fine Arts for advice as to the merits of such designs before the executive officer having charge of the same shall approve thereof."

It is the practice of some bureaus of the Government to have designs for medals prepared in their own offices, and then arrange for the production of the medal by having commercial medal manufacturing companies make models and produce the medal. The Commission of Fine Arts contend that this is not conducive to good results. Furthermore, it seems unfair to the recipients, who, if entitled to medals, should be given ones that they would be proud to wear.

We have in the United States many able sculptors who also qualify as medallists, whose services we believe should be called upon to make designs and models for medals, so as to give assurance that each medal may be a work of art and worthy of the service which it commemorates.

The Commission will be pleased to cooperate with you in this matter. For the Commission of Fine Arts:

Sincerely yours,

Hon. Jesse H. Jones,
Secretary of Commerce,
Washington, D. C.

Gilmore D. Clarke,
Chairman.

COPY
The Commission of Fine Arts
Washington

May 15, 1942.

My dear Mr. Secretary:

The Commission of Fine Arts have noted that, since the attack on Pearl Harbor, several Bills have been introduced in Congress to authorize the presentation of medals. It is also noted that several Departments and independent establishments of the Government have undertaken to have designs prepared for medals.

This Commission respectfully call attention to the fact that by Executive Order, dated July 26, 1921, the President of the United States directs that "essential matters relating to the design of medals, insignia, and coins produced by the executive departments-----shall be submitted to the Commission of Fine Arts for advice as to the merits of such designs before the executive officer having charge of the same shall approve thereof."

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The Commission will be pleased to cooperate with you in this matter. For the Commission of Fine Arts

Sincerely yours,

Hon. Jesse H. Jones,
Secretary of Commerce,
Washington, D. C.

Clifford D. Clarke,
Chairman.

WAR PRODUCTION BOARD
WASHINGTON, D. C.

Photostats to Felt ✓
+ 2 file 5/25/42 -

OFFICE OF
DONALD M. NELSON
CHAIRMAN

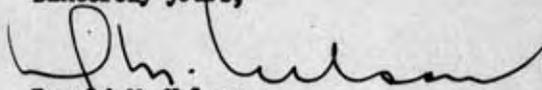
May 25, 1942

My dear Secretary Morgenthau:

I was very much interested in your letter of May 7 in connection with the possibility of obtaining new silver legislation.

May we discuss this at the same time we talk to the Committee about the use of silver in the butadiene plants?

Sincerely yours,


Donald M. Nelson

The Honorable
The Secretary of the Treasury

MAY 25 1942

Dear Mr. Wait:

It is with regret that I learn of your voluntary retirement after more than thirty-six years of Government service, twenty-five of which were spent in rendering able and devoted service in Customs work.

I want to take this opportunity, therefore, to congratulate you on your splendid career in the Government service; to express my deep and sincere regret that you have left our official family; and to wish your continued good health, prosperity and contentment in the years to come.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Bernard Wait,
3260 Riviera Drive,
Coral Gables, Florida.

n. m. c.
See from Mr. Thompson's office

(Prepared in Customs Personnel Office)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 25, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

You may be interested in the attached story of inhuman treatment of our sailors as broadcast by a Japanese Rear Admiral in an official propaganda talk to North America. This talk was picked up and reported by the Federal Communications Commission.

F. K.

Official Japanese Broadcast to America and Orient, May 21:

U.S. sailors from the sunken cruiser Houston are often severely beaten with heavy ropes by their Japanese captors when they lag in their work because of the hot weather of Celebes Island, Netherlands East Indies, where they are imprisoned, Rear Admiral Toshio Matsunaga frankly admits in a talk to students broadcast (May 21, 1:00 a.m. EWT) by the Tokyo radio in Japanese to the people of Japan.

Trip Described--The Admiral describes a tour of inspection which he made of Japanese-occupied countries, particularly the Netherlands East Indies and the Philippines. While the exact location of the prisoners from the Houston is not revealed, the text of his broadcast strongly indicates that they are employed repairing shell-ravaged airfields at or near Macassar on the Dutch Indies island of Celebes.

U. S. Prisoners--Tokyo quotes the Admiral: "What kind of work are the American prisoners from the Houston engaged in in this sector? They are engaged in the work of filling the holes in the airfields. They are engaged in comparatively easy jobs.

'Lazy' Ones Beaten--"There are many who are suffering from hunger because they are not used to the Japanese type of food and there are some who get very lazy because of the extreme heat. Those who do not do their part are beaten by the Japanese guards who are placed on watch in a ratio of about 1 guard for 100 prisoners. However, those who are hard to handle are severely beaten with a rope which is similar to the rope used by sailors. Because of the pain the lazy American prisoners continue the work with painful expressions on their faces."

THE SECRETARY OF THE INTERIOR
WASHINGTON



MAY 25 1942

My dear Mr. Secretary:

I enclose for the information and records of your Department a letter with enclosures, dated February 19, which I have received from the United States High Commissioner to the Philippine Islands. This communication which was deposited in the mail by Mr. Sayre prior to his departure from the Philippines has only recently been received in this Department.

Practically all of the factual information contained in this correspondence which has to do with the reported collaboration of certain prominent officials of the Philippine Government with the Japanese has been previously reported to Washington by radio.

It will be noted that the High Commissioner in the third paragraph of his covering letter comments on the attitude of President Quezon and seems to imply that he is of the opinion that President Quezon should have issued a public repudiation of the members of his Cabinet who were reported to have been collaborating with the Japanese. From my own limited knowledge of this situation it would appear to me that President Quezon was correct in being very guarded on anything which he might say on this subject. In the first place, it should be noted that practically all of the information which is available as to the extent of collaboration of the Filipinos with the Japanese comes from Japanese sources.

To condemn them publicly might be playing directly into the hands of the Japanese who would then be in a position to represent to these men that they had burned their bridges behind them, and that they must necessarily stand or fall with the Japanese. They may or may not be engaged in treasonable activities, but even if they are there is nothing that we can do about it at the present time and nothing is to be gained by name calling. Until such time as we

are again in position to know all the facts as to what is going on in the Philippines and are able to reward loyalty and punish treason, I believe it to be sound public policy to refrain from ex parte judgment of men who are faced with the harsh facts of enemy occupation and control.

Sincerely yours,

Harold Z. Fisher

Secretary of the Interior.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

Enclosure 2779039.

are again in position to know all the facts as to what is going on in the Philippines and are able to reward loyalty and punish treason, I believe it to be sound public policy to refrain from ex parte judgment of men who are faced with the harsh facts of enemy occupation and control.

Sincerely yours,

Harold Z. Parks

Secretary of the Interior.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

Enclosure 2779039.

Fort Mills, Philippines
February 19, 1942.

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

Sir:

The extent and character of the collaboration of prominent officials of the Commonwealth Government with those of the Japanese expeditionary forces in Manila has caused great concern. Factual brief reports were furnished you in my telegrams through the Secretary of State Nos. 44 and 45, both dated February 12th. These messages were necessarily brief and I am taking this opportunity of forwarding copies of the documents cited in the telegrams and other pertinent material.

The part played by Mr. Jorge B. Vargas, Secretary to the President of the Commonwealth and a member of his Cabinet, has caused considerable comment. When the Commanding General removed the heads of the civil government from Manila, President Quezon appointed Mr. Vargas to the newly created position of "Mayor of Greater Manila". The expressed purpose of the appointment was to preserve order in the City of Manila during the interval between the removal of the chief civil officers and the arrival of Japanese forces, the period December 24th to January 1st. On the arrival of the Japanese Mr. Vargas appears not to have resigned his office, but to have remained as Mayor under an informal understanding with the Japanese officials until the organizing under Japanese auspices of a "Council of State" and "Executive Commission".

The attitude of President Quezon is non-committal. He has issued no repudiation. His official position is expressed in his Proclamation of January 29th, a copy of which is enclosed.

One of the dangers arising from such collaboration is its possible effect on Filipino troops in the field. A graphic illustration is found in the distribution among

the

- 2 -

the troops of the enclosed leaflet "To Our Sons and Brothers in Bataan" over the name of Mr. Vargas, although Mr. Vargas probably had nothing to do with it. This leaflet is a plea to the troops to lay down their arms.

An incidence of the spread of cooperation is found in the radio broadcast on February 13th by Hadj Gulamul Rasul, one of the more influential of the Moros of Jolo. He broadcast from Manila advising his people to go along with the Japanese. The address was given in the Sulu language and it was repeated in English.

I shall appreciate your having copies made of this letter and its enclosures and sending them to the Secretary of State, the Secretary of the Treasury and the heads of other interested Departments.

Sincerely yours,

(Sgd.) Francis B. Sayre.

Enclosures:

1. Letter Jan. 23, 1942, Jorge B. Vargas and others to the Commander-in-Chief of the Imperial Japanese Forces in the Philippines relative to Philippine Council of State under Japanese auspices.
2. Article from The (Manila) Tribune Jan. 28, 1942 relative to Philippine Executive Commission under Japanese auspices.
3. Copy of Proclamation of President Quson Jan. 29, 1942, relative Philippine Executive Commission under Japanese auspices.
4. Transcript of radio broadcast by Jorge B. Vargas Jan. 31, 1942, over Station KERR, Manila, relative Executive Commission and cooperation with Japanese Government.
5. Copy of printed leaflet distributed by Japanese in Bataan, entitled "To Our Sons and Brothers in Bataan", over printed name and title of Jorge B. Vargas.
6. Copy of "Executive Order No. 1" by the Chairman of the Executive Commission. Summary of Organizations of the Central Administration Organs and Judicial Courts from The (Manila) Sunday News February 1, 1942.
7. Confirmation copies of my radiograms Nos. 44 and 45 (paraphrase of confidential code), both Feb. 12, 1942.

(Copied from THE TRIBUNE, Manila, January 25, 1942)

Manila, Philippines
January 23, 1942.

Excellency:

In response to the message of Your Excellency as Commander-in-Chief of the Imperial Japanese Forces, on the 8th of January, 1942, through Hon. Jorge B. Vargas, we have duly taken note of the contents thereof and respectfully express our gratitude for Your Excellency's words of solicitude over the welfare of our people.

We beg to inform Your Excellency that, in compliance with your advice, and having in mind the great ideals, the freedom and the happiness of our country, we are ready to obey to the best of our ability and within the means at our disposal the orders issued by the Imperial Japanese Forces for the maintenance of peace and order and the promotion of the wellbeing of our people under the Japanese Military Administration. Consequently, we have constituted ourselves into a provisional Philippine Council of State and we are immediately proceeding to draft our Articles of Organization in line with Your Excellency's advice.

Availing ourselves of this opportunity, we renew to Your Excellency the assurance of our highest consideration.

JORGE B. VARGAS

JOSE YULO

QUINTIN PAREDES

JOSE P. LAUREL

BENIGNO S. AQUINO

TEOFILO SISON

RAFAEL ALUNAN

(over)

His Excellency, the Commander-in-Chief
of the Imperial Japanese Forces
in the Philippines

- 2 -

CLARO M. RECTO
JORGE BOCOBO
LEON G. GUINTO
JOSE FABELLA*
EULOGIO RODRIGUEZ
BOTERO BALUYUT
SERAFIN MARABUT
EMILIO AGUINALDO
VICENTE MADRIGAL
RAMON J. FERNANDEZ
ANTONIO DE LAS ALAS
ELPIDIO QUIRINO
JOSE ZULUETA
DOMINADOR TAN
FRANCISCO LAVIDES
RAMON AVANCENA
MIGUEL UNSON
ALEJANDRO ROGES
PEDRO BABIDO
ALFONSO MEMDOZA*
MELECIO ARRANZ
PEDRO C. HERNAEZ
JOSE OZAMIS
JOSE VELOSO*
RICARDO NAVARRO
PROSPERO SANIDAD*
EUGENIO PEREZ

Note: All signed over typed names except those indicated by asterisk which were unsigned.

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(Copied from THE TRIBUNE, Manila, January 25, 1942)

At the residence of Speaker Jose A. Yulo on Penafraancia last Friday morning, 30 prominent Filipino officials and private citizens, signed the document above constituting themselves a provisional Philippine Council of State. The signing of the document was preceded by preliminary meetings of an exploratory nature. In this document, addressed to the commander-in-chief of Japanese Expeditionary Forces, they pledged to obey the orders of the Imperial Japanese Forces in the interest of the maintenance of peace and order and the promotion of the well-being of the people in the Occupied Territory. Four of 34 prominent Filipinos failed for various reasons to sign this document. They were Jose Fabella, Alfonso Mendoza, Jose Veloso and Prospero Sanidad. It was this document which was presented to the representative of the commander-in-chief in the ceremony held last Friday afternoon at military headquarters. The Council of State formed the basis of the civil administration of the Occupied Territory and acts as an advisory to the Executive Commission. Jorge B. Vargas was appointed chairman of the Executive Commission by the commander-in-chief.

(Copied from THE TRIBUNE, Manila, January 28, 1942)

**COMMISSION DISCUSSES
ORGANIZATION PLANS**

**APPROVAL
OF MILITARY
IS SOUGHT**

**Services of Old
Employees May Be
Retained**

The executive commission of the civil administration established in the occupied territory held its first meeting at Malacanan yesterday afternoon to discuss plans for the organization of the new administrative organs under Order No. 1 of the commander-in-chief of the Japanese Expeditionary Forces.

The commission was reported to have reached an agreement on the general framework of the new government. Chairman Jorge B. Vargas, who presided over the meeting, will present the plan to the commander-in-chief for approval.

It was understood that efforts will be made to retain as many government employees in the service as possible, although substantial reduction may be made in salaries of officials in the higher brackets.

After the meeting yesterday, Chairman Vargas made an announcement asking the heads of the bureaus and offices existing prior to the Japanese occupation to report to the commissioners having jurisdiction over their former activities.

The commissioners may be reached in the following places:

Commissioner of Interior Benigno S. Aquino, at his residence or at the office of the former department of the interior.

Commissioner of Finance Antonio de las Alas, at his residence or at the office of the former department of finance.

Commissioner of Justice Jose P. Laurel, at his residence.

- 2 -

Commissioner of Agriculture and Commerce
Rafael R. Alman, at his residence.

Commissioner of Education, Health and
Public Welfare Claro M. Recto, at his residence
or law office.

Commissioner of Public Works and Communi-
cations Quintin Paredes, at his residence or law
office.

At the meeting yesterday afternoon, all the
members of the commission were present. Chairman
Vargas also invited Teofilo Sison, auditor general
and director of the budget, and Serafin Marabut,
executive secretary to the commission, to attend
the meeting.

The members of the executive commission, who
were appointed by the high command the previous day,
assumed their office yesterday morning. They started
the preparation of the lists of their respective
offices and bureaus.

Commissioner of the Interior Benigno S. Aquino
conferred with the officials of the department of the
Interior yesterday. He took up the question of per-
sonnel of the department.

Proclamation Released by President Quason on
January 29, 1942.

The determination of the Filipino people to continue fighting ^{against} side with the United States until victory is won has in no way been weakened by the temporary reverses suffered by our arms. We are convinced that our sacrifices will be crowned with victory in the end and in that conviction we shall continue to resist the enemy with all our might. Japanese military forces are occupying sections of the Philippines comprising only one third of our territory. In the remaining areas constitutional government is still in operation under my authority. I have no direct information concerning the veracity of the news broadcast from Tokyo that a commission composed of some well known Filipinos has been recently organized in Manila to take charge of certain functions of civil government. The organization of such a commission, if true, can have no political significance not only because it is charged merely with purely administrative functions but also because the acquiescence by its members to serve in the commission was evidently for the purpose of safeguarding the welfare of the civilian population and can, in no way, reflect the sentiments of the Filipino towards the enemy. Such sentiments are still those I have repeatedly expressed in the past: Loyalty to America and resolute resistance against the invasion of our territory and liberties.

(ADDRESS MADE BY JORGE B. VARGAS OVER STANTON KERR, MANILA, IN HIS CAPACITY AS CHAIRMAN OF THE PHILIPPINE EXECUTIVE COMMISSION CREATED BY THE JAPANESE FORCES OF OCCUPATION IN THE PHILIPPINES, JANUARY 31, 1942, AT 4:30 PM.)

Fellow countrymen and friends of the radio audience:

Because of circumstances beyond our control, the Philippines found herself involved in the war between Japan and the United States. As a result of this war, most of the Philippines has been placed under the military administration of the Imperial Japanese Forces. In dealing with the occupied territory, however, the high command of the Imperial Japanese Forces has expressed a deep desire to follow a benign and liberal policy predicated on the willingness of the people to cooperate with the military administration in the reestablishment of peace and order, and to that end has set up a National Civil Administration intended, among other things, to temper the rigors of martial law. The fact that the high command has seen it fit that the civil government be run by Filipinos under the control of the Imperial Japanese Army, should be a cause for gratification on the part of our people. These Filipinos have accepted this responsibility in the conviction that they will serve the best interests of their countrymen.

In my capacity as Chairman of the Executive Commission, I appeal to the people of the Philippines to return to their respective homes and resume their normal life to the end that law and order may be restored and so that they may be able to embark on the work of reconstruction and engage once more in productive enterprises.

The maintenance of law and order is a condition precedent to the attainment of normalcy because without it there would be anarchy and chaos. Our crops have to be harvested, our roads and bridges reconstructed, and our lines of communications restored; our faithful occupations have to be resumed and our industry rehabilitated. This we cannot accomplish under a reign of lawlessness and unless we cooperate fully with the Japanese Military Administration. And the sooner we salvage what is left of our possessions, the less suffering there will be in the end, and we will be that much nearer to the recovery of our economic well-being and security.

We cannot escape the inexorable fact that the fortunes of war have placed those of us in the occupied territories outside the protection of the United States and at the mercy of the Japanese military. We must have trust in the justice and fairness of the Japanese people. The illustrious Premier General Tojo of Japan, in a special pronouncement promised

- 2 -

us independence with honor. It is imperative, therefore, that we should refrain from committing acts which are detrimental or inimical to the interests of the Imperial Japanese Forces.

Our people have never abandoned our ideals of freedom and independence which have welded us into one nation. Under the Japanese Military Administration, I am sure that united in a common cause and with the indomitable will which our people have shown on many an occasion, we shall be able to restore peace and tranquillity, rebuild our homes made desolate by the ravages of war, and once more bring peace to our country.

With the aid of Divine Providence, I venture to hope that we shall be able ultimately to work out the realization of our national destiny.

TO OUR SONS AND BROTHERS
IN BATAAN

On behalf of the Filipino people, and as the Chairman of a Provisional Philippine Council of State, I urge you to lay down your arms immediately and abandon cooperation with the American Army.

The present war was forced upon Japan by the American Imperialists headed by President Roosevelt who, under the hypocritical claim that they are fighting for democracy, wish to rule and dominate the whole world. America is now master of the Western Hemisphere which is one half of the world and the British Empire which occupies one fourth of the area of the earth is now virtually a colony of the United States. Therefore, America controls three fourths of the world today. And yet, she still craves for the remaining fourth which is the Orient, because her greed for power is insatiable.

Japan will never consent to American domination of the Orient. Once more, she has taken up arms to stem the tide of Occidental Imperialism so that Asia may be preserved for Asia and the Philippines for the Filipinos. Furthermore, Premier Tojo of Japan has solemnly promised at the 79th session, of the Imperial Diet held on January 21st, 1942; in which he said in part "Japan will gladly grant the Philippines its independence so long as it cooperates and recognizes Japan's program of establishing a Greater East Asia Co-prosperity Sphere." Are you going to be traitors to the cause of the Oriental Races? Remember that never in the history of mankind has the white people fought for the colored race. Even now the American command always place you in the vanguard while American soldiers stay behind.

Brothers-in-arms! Japan has come to help us realize our ideals and aspirations and establish an economic, cultural and spiritual confederacy of Oriental nations known at the Great East Asia Co-prosperity sphere. Let us shake off the yoke of white domination forever, and find a dignified place for us among this concert of Oriental nations.

JORGE B. VARGAS
Chairman of the Executive Commissioner,
Provisional Philippine Council of State.

Copy of leaflet

(The following on back side of leaflet)

(Three Japanese characters)

SURRENDER CARD

Any Filipino or American soldier and their friends will received special consideration by presenting this card to the Imperial Japanese Forces.

(Japanese characters)

From The (Manila) Sunday News, Febr. 1, 1942.

EXECUTIVE ORDER NO. 1

**By the Chairman of the Executive Commission
Summary of Organizations of the Central
Administration Organs and Judicial
Courts**

In accordance with Administrative Order No. 1 of the Commander-in-Chief of the Imperial Japanese Forces in the Philippines dated January 30, 1942, and pursuant to the authority conferred upon me as Head of the Central Administrative Organization by Order No. 1 of the said Commander-in-Chief of the Imperial Japanese Forces, it is hereby ordered that -

ARTICLE I

The Central Administrative Organs and Judicial Courts are hereby reconstituted and shall function in accordance with the following summary of organization:

1. Central Administrative Organs

Chairman of the Executive Commission
Budget and Auditing Office
Bureau of Civil Service
All Examining Boards
Office of Executive Secretary to the Commission
(Official Gazette)
Bureau of Purchase and Supply
Bureau of Printing
Government-owned or Controlled Corporations
Department of the Interior
Bureau of Local Governments
(Provincial, City Municipal and Specially
Organized Local Governments including
Greater Manila)
Bureau of Constabulary and Police
Bureau of Religious Affairs
Bureau of the Census and Statistics
Department of Finance
Bureau of the Treasury
Bureau of Customs and Internal Revenue
Bureau of Financing
(Including Banking, Insurance, etc.)
Government Service Insurance System
Philippine Charity Sweepstakes

Department of Justice
 Bureau of Justice
 Bureau of Prisons
 Court of Appeals
 Courts of First Instance
 Provincial and City Judges and Sheriffs
 Justices of the Peace Courts and Municipal Courts
 Code Commissions

 Department of Agriculture and Commerce
 Bureau of Agricultural Administration
 (Including National Land Settlement
 Rural Progress Administration)
 Bureau of Plant and Animal Industry
 Bureau of Lands
 Bureau of Forestry and Fishery
 Bureau of Science
 Bureau of Commerce and Industries
 Bureau of Mines
 Weather Bureau

 Department of Education, Health, and Public Welfare
 Bureau of Public Instruction
 Bureau of Private Education
 Bureau of Physical Education
 Bureau of Health
 (Including Quarantine Services)
 Bureau of Public Welfare
 (Including matters pertaining to Labor)
 University of the Philippines
 National Library
 Institute of National Language
 Philippine General Hospital

 Department of Public Works and Communications
 Bureau of Public Works
 Bureau of Communications
 Bureau of Transportation
 Bureau of Public Utilities
 Metropolitan Waterworks Office

2. Superior Court
 Supreme Court

ARTICLE II

The specific duties, functions and activities to be performed by the administrative departments, bureaus and offices as herein reconstituted, will be determined and defined in subsequent executive orders.

Done in the City of Greater Manila, Philippines, this 30th day of January, 1942.

(Sgd.) JORGE B. VARNAS
 Chairman, Executive Commission

Personnel Appointments under the Japanese-
controlled Philippine Civil Government

1. From the (Manila) Sunday Tribune, Feb. 8, 1942:

Leon Guinto, Mayor of Greater Manila.
 Jorge B. Vargas, Chairman of the Executive Commission
 Serafin Marabut, Secretary of the Executive Commission
 Hilario Lara, Director of Public Welfare
 Lt. Procopio Beltran, Chief of Police, San Juan
 Lt. Cirilo Abaya, Chief of Police, Mandaluyong
 Lt. Nicolas Guiwa, Chief of Police, Quezon City
 Lt. Francisco Polotan, Chief of Police, Pasay
 Lt. Pioquinto Bergado, Chief of Police, Caloocan
 Lt. Lorenzo Ballanka, Chief of Police, San Pedro Makati
 Lt. Claro Weber, Chief of Police, Paranaque
 Juan Nolasco, Assistant Mayor of Greater Manila
 Benigno S. Aquino, Commissioner of The Interior
 Jose Yulo, Chief Justice of Supreme Court
 Ricardo Paras, Chief Justice of Supreme Court
 Jorge C. Bocobo, Chief Justice of Supreme Court
 Manuel M. de Hasanas, Clerk of Court
 Emilio Abello, Assistant Commissioner of Justice
 Jose P. Laurel, Commissioner of Justice
 Santiago Estrada, Governor of Pangasinan
 conferring with officials of Dept. of Justice
 Mariano G. Icasiano, City Health Officer
 Jose Figueras, Unemployment Section, City Hall
 Celedonio Salvador, Director of Private Education
 Gabriel Manalac, Direct of Education
 Eusebio Aguilar, Director of Health

2. From The (Manila) Tribune, Feb. 15, 1942:

Pio Duran, Member of Council of State
 "Duran's appointment increases the membership
 of the Council to 35."
 Justiniano Montano, recommended to be Mayor of
 Cavite, vice Col. Arsenio Natividad; the
 latter having been called by the Interior
 Department to help General Jose de los
 Reyes in reorganizing the Constabulary and
 to act as liaison officer between Commissioner
 Benigno Aquino and General de los Reyes.
 Jose Garrido, Director, Bureau of Transportation.
 Cornelio Balonaceda, Director, Bureau of Commerce.

3. Reported, unconfirmed:

Camilo Osias, Assistant Commissioner of Public Welfare.

Fort Mills, Philippines
February 12, 1942.

TELEGRAM SENT
CODE: CONFIDENTIAL

SECSTATE
WASHINGTON

44, February 12, 11 p.m.

We are reporting in the immediately following telegram (No. 45) with reference to statements regarding the regime which has reportedly been set up in Manila by the Japanese.

It is suggested that all possible steps be taken to assure blocking of any efforts on the part of the so-called "Council of State" or "Executive Commission" which may be made with the object of obtaining exchange either directly or indirectly through third countries. It is possible that the Treasurer of the Philippines may attempt to serve under the direction of the Commissioner of Finance and it would appear prudent to be on guard against any representation of either body as part of the unblocked Commonwealth Government.

A fuller report is to be sent forward by mail as opportunity offers. Additional details can, of course, be supplied by telegraph if desired.

SAYRE

RECEIVED
FEB 12 1942
U.S. DEPT. OF STATE

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 25, 1942

TO Secretary Morgenthau
FROM Mr. Hagg
Subject: The Business Situation,
Week ending May 23, 1942

Summary

(1) Industrial output rose more than seasonally in April, carrying the FRB adjusted index of industrial production to a record high at 174. This compares with 172 in the previous month, and with 166 last November just before our entry into the war. The April rise was featured by a further expansion in production of machinery, armament, and chemicals, as well as a sharp contra-seasonal gain in soft coal output.

(2) Stock market activity recently has been characterized by increasing strength in "peace" stocks, while "war" stocks have continued to decline. Taxation factors undoubtedly have contributed importantly to this divergence, but indications appeared last week that some shifts in market positions were being based on a more optimistic appraisal of war prospects.

(3) The recent lag in retail sales, which was attributed in part to the imminence of retail price ceilings, has apparently continued since the ceilings went into effect last Monday. The WPB is expected to take steps shortly to regulate wholesaler's and retailer's inventories, which are believed to be unduly high in many instances. Department store stocks in March, for example, were 45 percent above year-earlier levels (in dollar value).

(4) The general price level receded very slightly during the first week in which wholesale prices were subject to the general maximum price regulation. During the week mentioned (ended May 16) the BLS all-commodity index declined 0.1 point to 98.5. The BLS has estimated that the general maximum price regulation extended control to 77 percent of the commodities in the index, as compared with 52 percent under formal or informal control just before the issuance of the price regulation.

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Industrial output at new high

Industrial output rose more than seasonally in April, and the FRB adjusted index of industrial production consequently advanced to a new record high of 174 from 172 in the previous month. (See Chart 1.) On an unadjusted basis the index rose 4 points, making the sharpest month-to-month gain since our entry into the war.

The principal factors in the rise were further expansion to new highs in the production of machinery, transportation equipment (including aircraft and shipbuilding), and chemicals, and a sharp contra-seasonal increase in soft coal output. Tending to partially offset these gains were declines in the output of crude petroleum and gasoline, as well as slackened deliveries of rayon, and lower production of paperboard and various other products.

Peace stocks lead market rise

Despite the steady rise of armament production, many leading "war" stocks have recently been declining to new lows for the year, while increasing interest has been shown in so-called "peace" stocks. This divergent trend was brought into sharper focus last Thursday, when "peace" stocks led a rise in the New York market and trading volume expanded to nearly 560,000 shares, or the largest total since March 6.

At the close of the trading session Thursday, the Dow-Jones average of industrial stocks stood about 7 percent above the April 28 low, and was at a new high on the slow recovery which has been under way since that time. This rise has occurred despite a number of important dividend reductions. Among others, du Pont, Johns-Manville, and National Biscuit announced dividend cuts last week. On the other hand, declaration of the regular dividend by the American Telephone and Telegraph Company was a stimulating influence.

Tax factors depress war stocks

The decline of many leading "war" stocks to new lows for the year has undoubtedly been due in part to prospective heavier tax burdens, which will tend to affect these industries more than the so-called "peace" industries. However, a number of recent market developments have indicated that a more optimistic attitude on war prospects was also making itself felt in the markets. Thus Thursday's stock market rise was accompanied by gains in Danish bonds and in bonds

- 3 -

of the city of Warsaw. Moreover, second grade rail bonds, which have been benefiting from war conditions, declined noticeably. Commodity price declines were also attributed in part to talk of a shorter war than had been expected some time ago.

Last week's decline in our price index of 20 "war" stocks carried it to a new low on the extended decline from the 1942 high reached at the beginning of the year. On the other hand, the index of 20 "peace" stocks has been rising since late in April, with the result that the market's recent appraisal of the two groups of stocks has placed the "war" stocks in the poorest relative position since we entered the war. (See Chart 2.)

Stock prices higher in London

Industrial stock prices in London have been rising gradually since the latter part of March, thus anticipating by more than a month the slightly firmer tendencies recently in evidence in the New York market. (See Chart 3.) By the end of last week, industrial stock prices at London stood at the highest levels since February 11, whereas industrial stock prices in New York were 7 percent below the level prevailing on the date mentioned. Business in the London market recently is reported to have been slow, with trading characterized by a firm, confident undertone.

Retail sales lag

Department store sales in the week ended May 16, the last week before the retail price ceilings went into effect, continued to lag and ran only 5 percent above year-earlier levels. (See Chart 4.) This compares with a 6 percent gain over year-earlier levels in the previous week, and a cumulative gain of 19 percent for the year to date.

The marked narrowing of the sales gain over 1941 levels in recent weeks has been ascribed in part to the belief that consumers were deferring purchases until after the effective date of the retail price ceilings. However, preliminary data fail to reveal any rush to buy now that the price ceilings are in effect, perhaps in part because fears of rising prices have been calmed by the price order.

Thus Dun and Bradstreet's weekly survey of retail trade indicates that, for the country as a whole, retail trade last week actually fell slightly below year-earlier levels even on a dollar basis. In view of the substantial rise in prices during the past year, such a showing would indicate a sizeable cut in the physical volume of goods sold. However, insufficient time has elapsed to accurately appraise the effects of the price order on consumer buying.

Wholesale and retail inventory control expected

Press reports last week indicated that the WPB soon is expected to issue orders to limit the amount of purchases and inventories of large wholesalers and retailers. It is contended that excessive inventories have been built up, and that some retailers' stocks are much above normal requirements, while others are unable to meet the needs of their communities.

Stocks held by department stores bear out the contention that retail inventories are abnormally high. After remaining fairly constant in 1939 and 1940, department store stocks rose sharply in 1941, particularly in the latter half of the year. A further sharp rise occurred in the first quarter of 1942, so that by March department store stocks were 45 percent above year-earlier levels. In New York City, department store inventories in April were 77 percent above the corresponding month in 1941.

This heavy accumulation of merchandise inventories has undoubtedly softened the immediate impact of curtailments in civilian goods production. It has thus tended for the time being deceptively to minimize the difficulties of stabilizing retail prices. The real difficulties will be unmasked when present retail stocks are used up, which will doubtless occur at a time when consumer incomes will be running substantially above current incomes.

Sales retarded by general price order

There are indications that in the first week of application of the general maximum price regulation to both wholesale and retail prices, a decline occurred in wholesale as well as in retail trade. The decline in wholesale trade undoubtedly reflected delays in adjustments, continued uncertainties over revisions, and deadlocks over the allocation of narrowed margins among the various distribution levels. The drawing down of inventories was also a factor, since apprehension over higher prices was largely removed as a buying incentive.

Although some difficulties have been remedied, other problems remain to be solved. An official of a large department store pointed out in a recent press report that, as a result of having kept prices below replacement costs for months, the retail industry now finds itself with a lag of about \$5 billion per year frozen against the retailers. Stating that 90 percent of such merchants do not have stocks to last for 60 days, he contended that when these are depleted and costs of acquiring new stocks are found too high, retailers may fail while awaiting OPA relief. Possible savings through various economies, he said, would be more than offset by loss in volume, with a 15 percent reduction in volume forecast for 1942, and a 25 percent reduction for 1943.

In the food industry, manufacturers' sales were reported at a standstill. The selection of March prices as a ceiling base apparently caught many distributors with price lists reflecting 1941 costs. According to trade reports, such prices in some cases were lower than manufacturers' prices of the same month. This has not only tended to stop further purchases from manufacturers, but in some cases has led to demands by distributors that manufacturers take back shipments made at March list prices, since distributors' costs on such goods exceeded their permissible resale prices.

OPA price rulings

Several far-reaching rulings were issued last week by the OPA. Sales on Army and Navy contracts for products covered by the general maximum price regulations were exempted from the order until July 1, for the stated purpose of bringing such contracts and purchases into conformity with the regulation. To alleviate difficulties arising from the requirements of competitive bidding, by July 1 the OPA may set definite price schedules on goods needed by the Army and Navy. Textile manufacturers, especially those with large contracts for woolen goods awarded in April at prices which took account of wage increases, are reported to be faced with substantial losses. Armaments, and six allied classes of goods, were permanently exempted from the provisions of the regulation, to prevent any interference with essential war production.

The first "roll-back" action was taken by the OPA last week to make it possible for tanners to operate under the maximum price set for sheepskin leather, and to avert price advances for shoes and other consumer goods made from such leather. The measure consisted of ordering prices for pickled sheepskins back to October levels.

Wholesale prices little changed under general price order

The BLS all-commodity index of wholesale prices receded only 0.1 point in the week ended May 16, the first week during which wholesale prices were subject to the general maximum price regulation. (See Chart 5.) At 98.5 percent of its 1926 average, the index was more than 1 percent above its highest level during March 1942, the base period stipulated in the regulation.

This rise since March, in part, reflects higher prices for certain products not subject to price ceilings. It may indicate also that the maximum prices of some products in March were not fully reflected in the weekly index at that time. It is possible also that prices of some commodities, as reported during the week, failed to show the full adjustments which are required.

The BLS has estimated that as of April 28, just before issuance of the general regulation, more than 52 percent (value basis) of the commodities covered by the index were affected by formal or informal controls, and that the regulation extended control to 77 percent.

Comparison of controlled and uncontrolled basic commodity prices

Wholesale prices of 28 basic commodities, compiled by the BLS, are shown in Chart 6, classified into two indexes to show separately the price trends of controlled and uncontrolled commodities.

Since the week ended January 30 this year, when the last of the 20 controlled commodities was placed under control, the index for this group has declined 0.6 percent. The index for the 8 uncontrolled commodities in the same period has risen 5.9 percent.

Basic commodity prices recede somewhat

Basic commodity prices (see Chart 7) were weakened somewhat last week by several bearishly-interpreted developments. Cotton prices declined to less than 20 cents, for the first time since March, on the report of legislation allowing sale of Government-owned commodities at sub-parity levels, and on the statement by Secretary Hull indicating that a victory might come earlier than had been expected. Continued prospects of record wheat supplies, coupled with inadequate storage and transportation facilities, depressed wheat

prices. Barley prices were strong, but corn and flaxseed declined with the wheat market. Wool prices were weakened by talk of an early peace and by reports of a record domestic production this year.

Hog prices reached the highest levels in four weeks, buoyed by the terms of the permanent price ceiling announced by the OPA, which did not lower the previous maximum except for products sold to the Department of Agriculture.

FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39=100

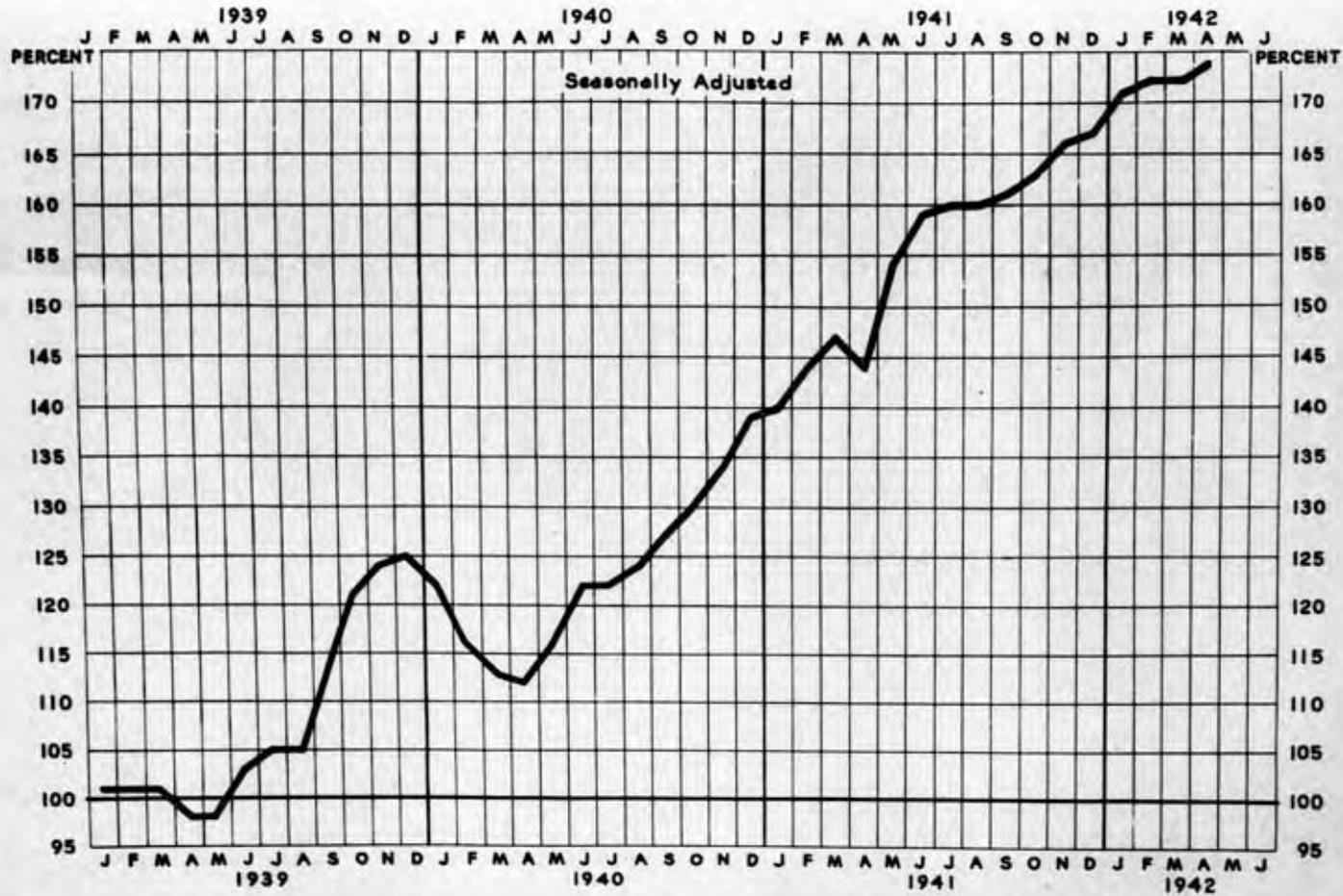


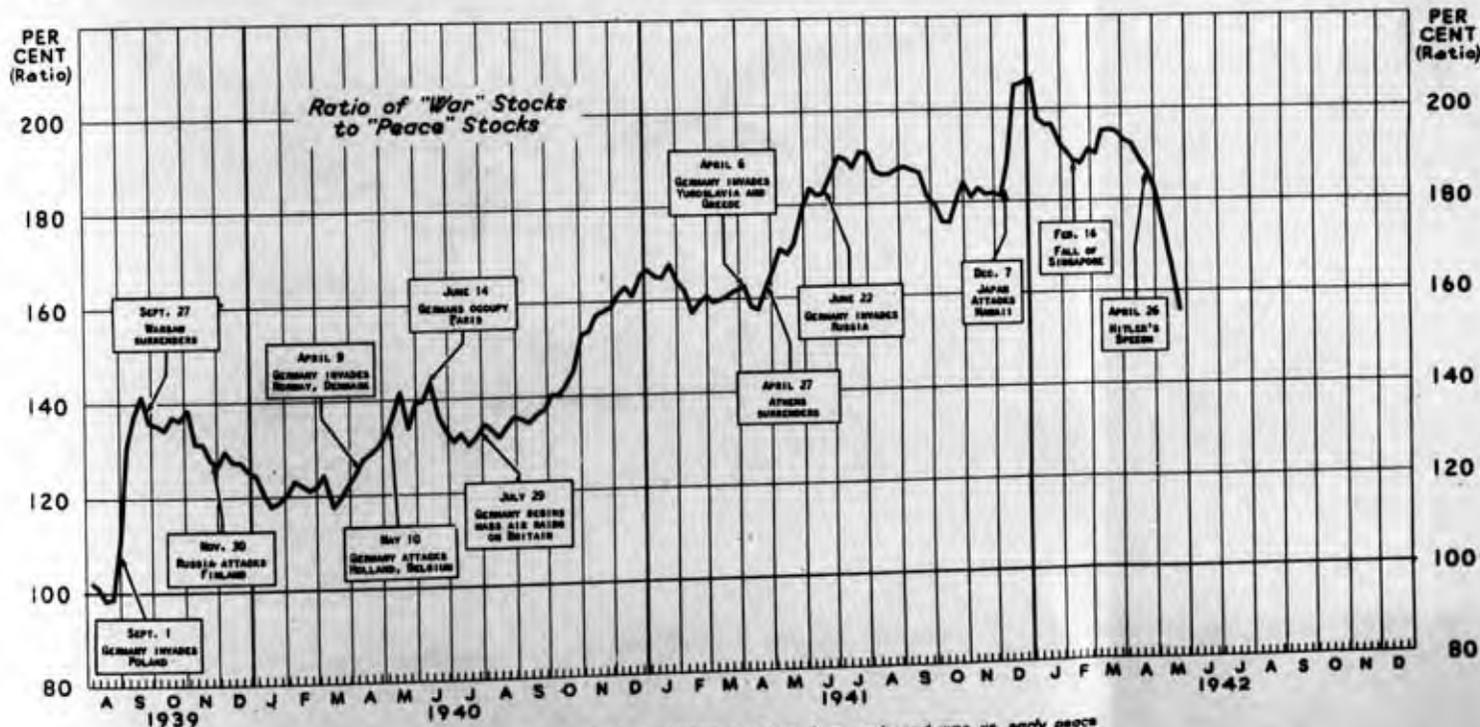
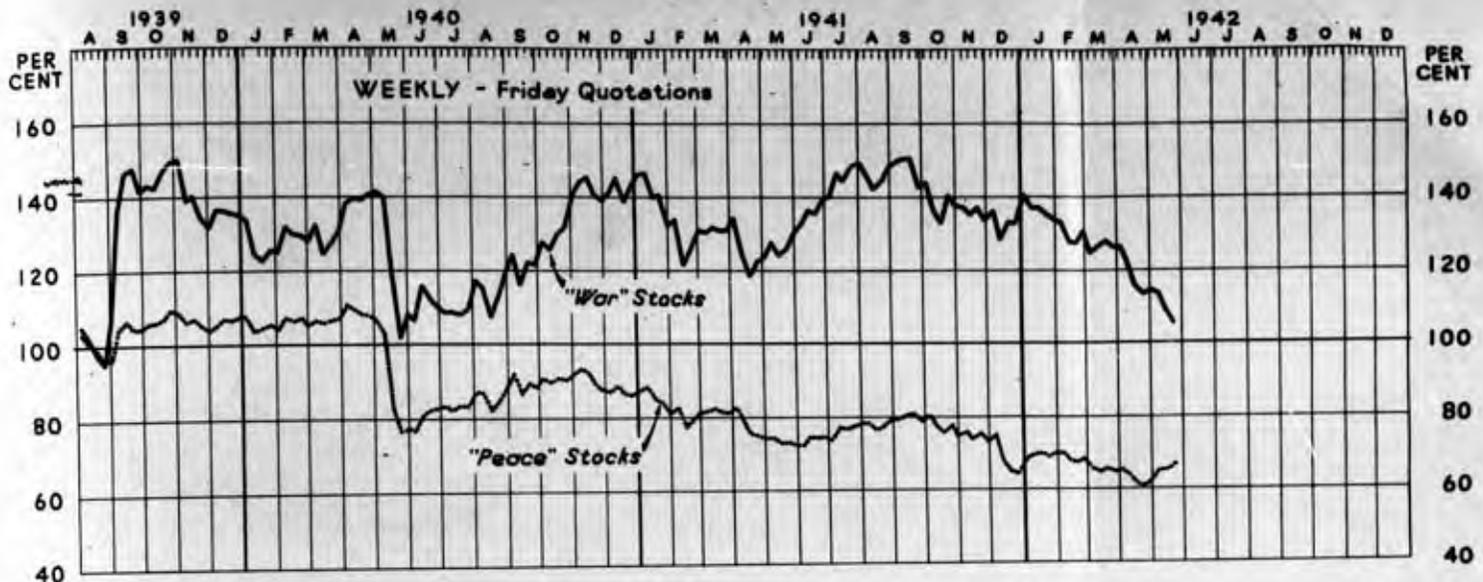
Chart 1
378

COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS*

August 1939 = 100

379

Chart 2



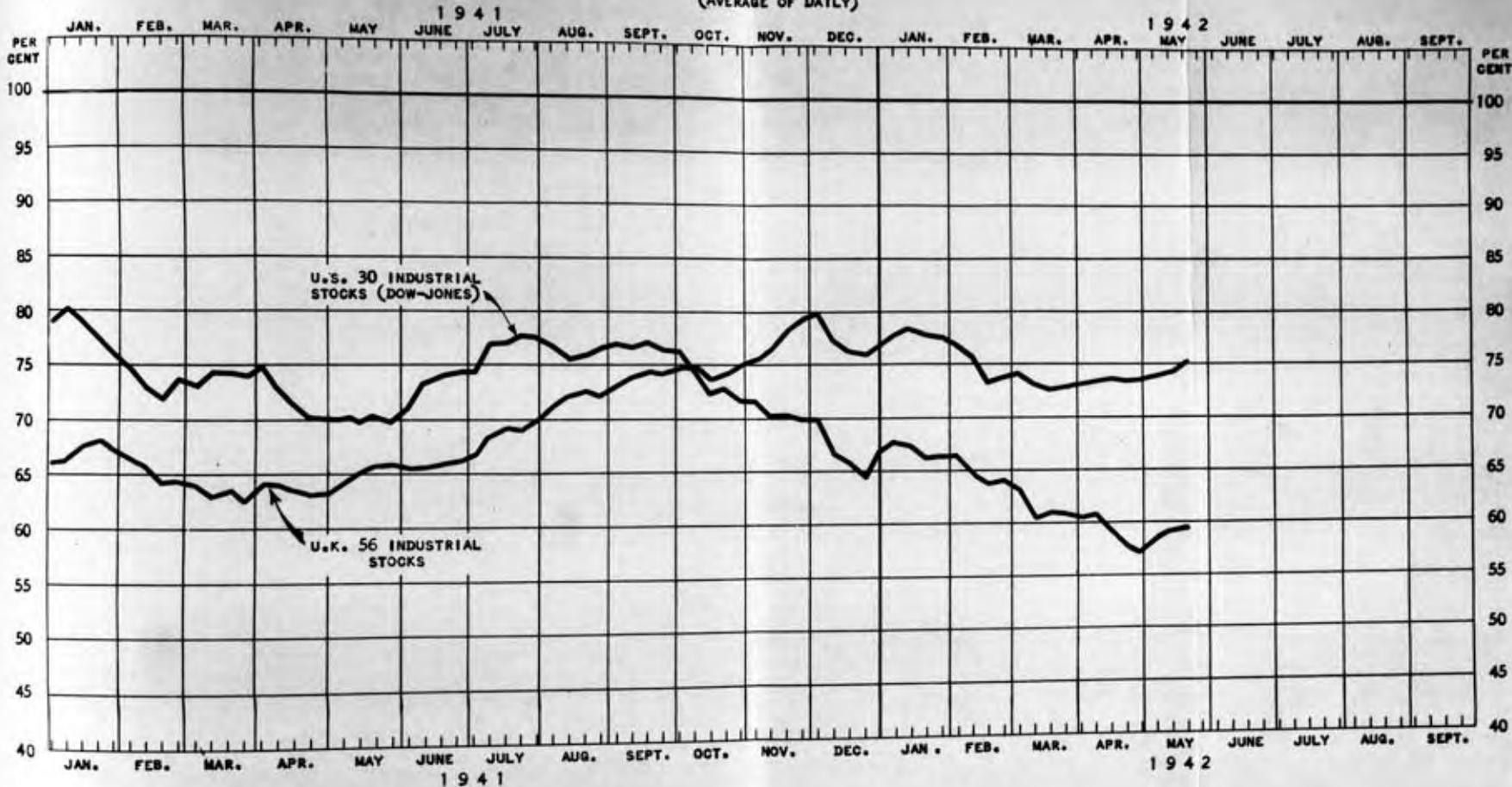
* Stocks selected on basis of relative benefits from prolonged war vs. early peace
Indices are weighted averages of price relatives

P-325-8

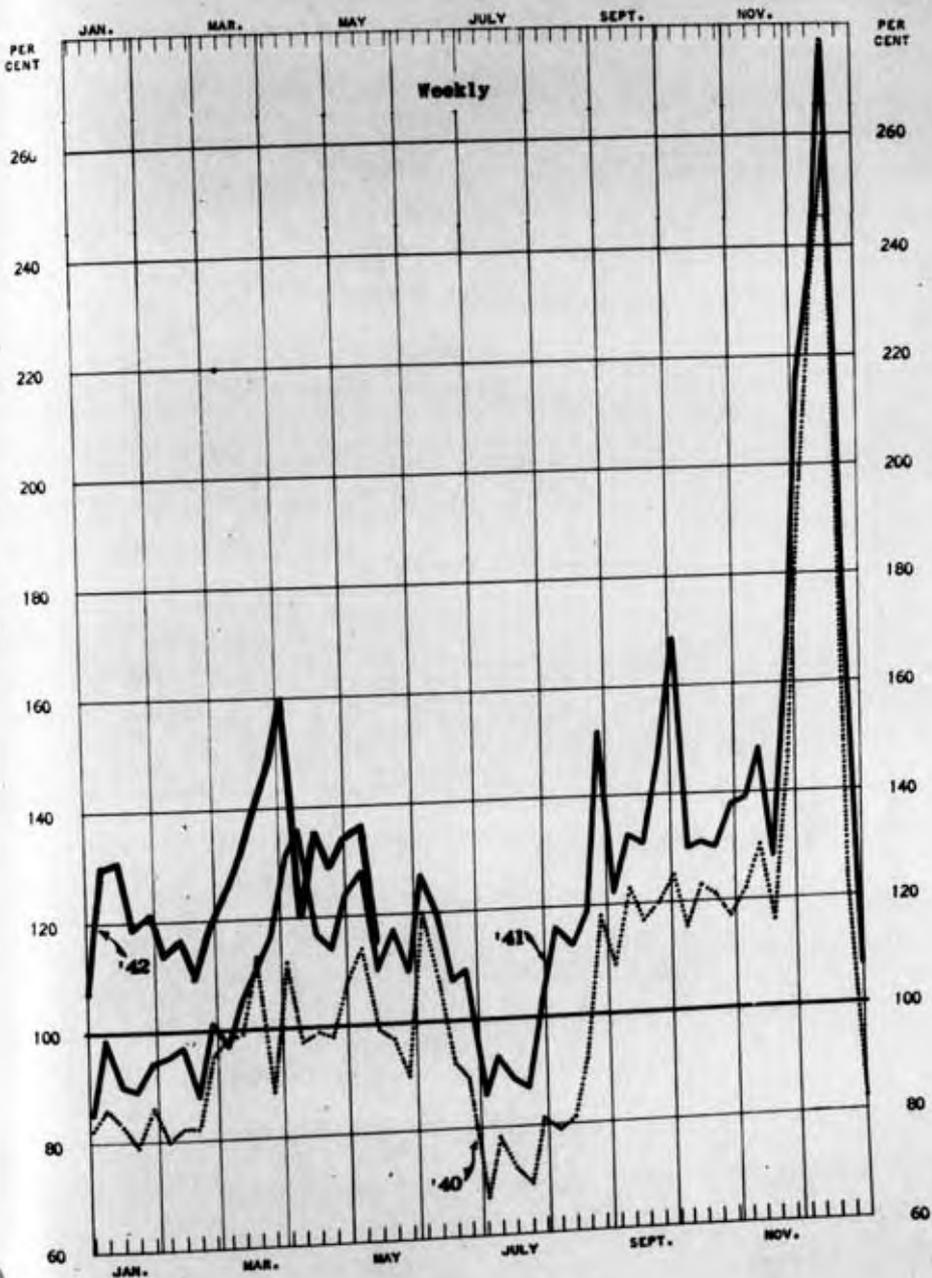
INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

AUGUST 1936 - 100

Weekly
(AVERAGE OF DAILY)

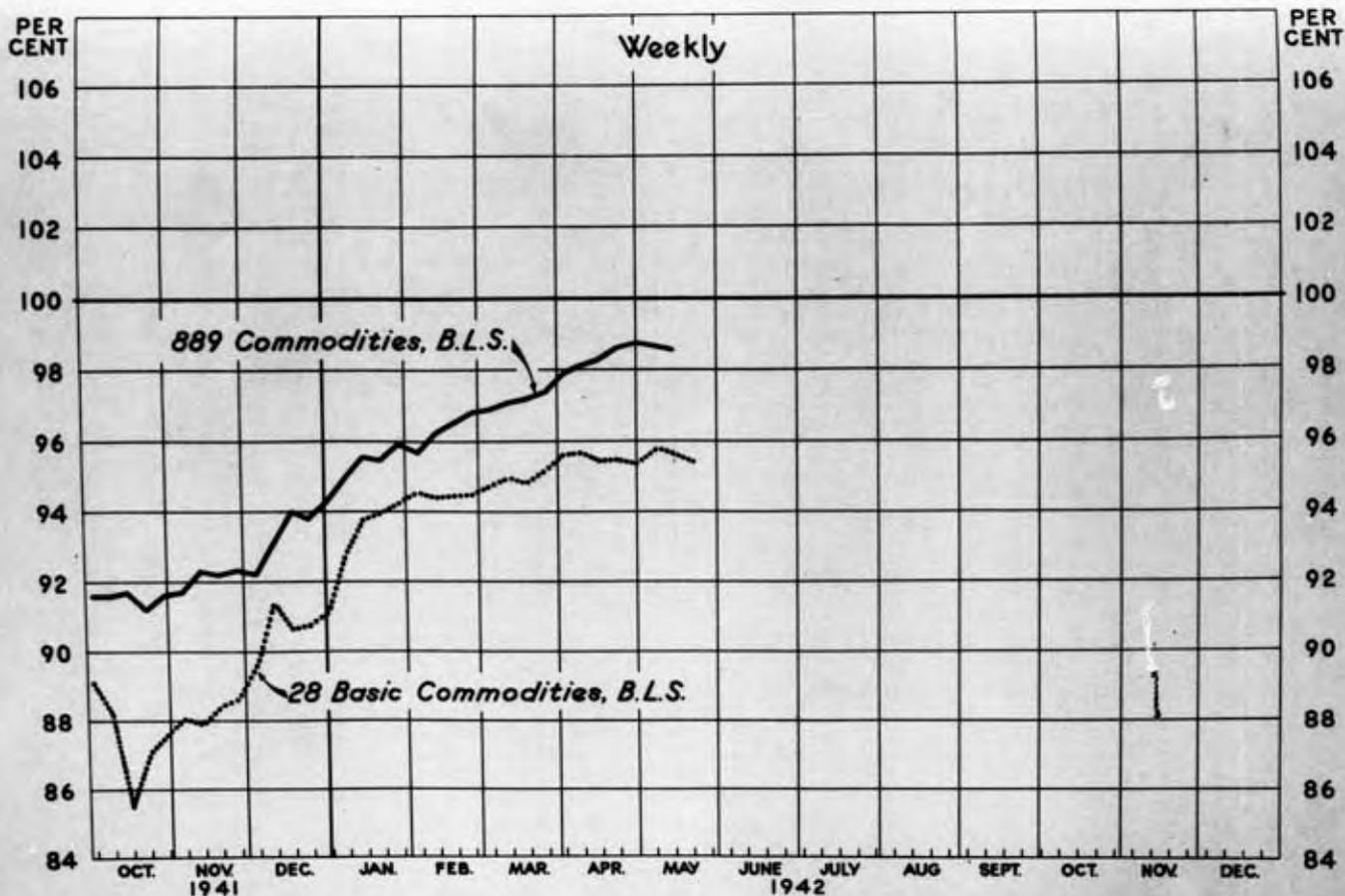


DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED



COMMODITY PRICES

1926=100



Office of the Secretary of the Treasury
Bureau of Research and Statistics

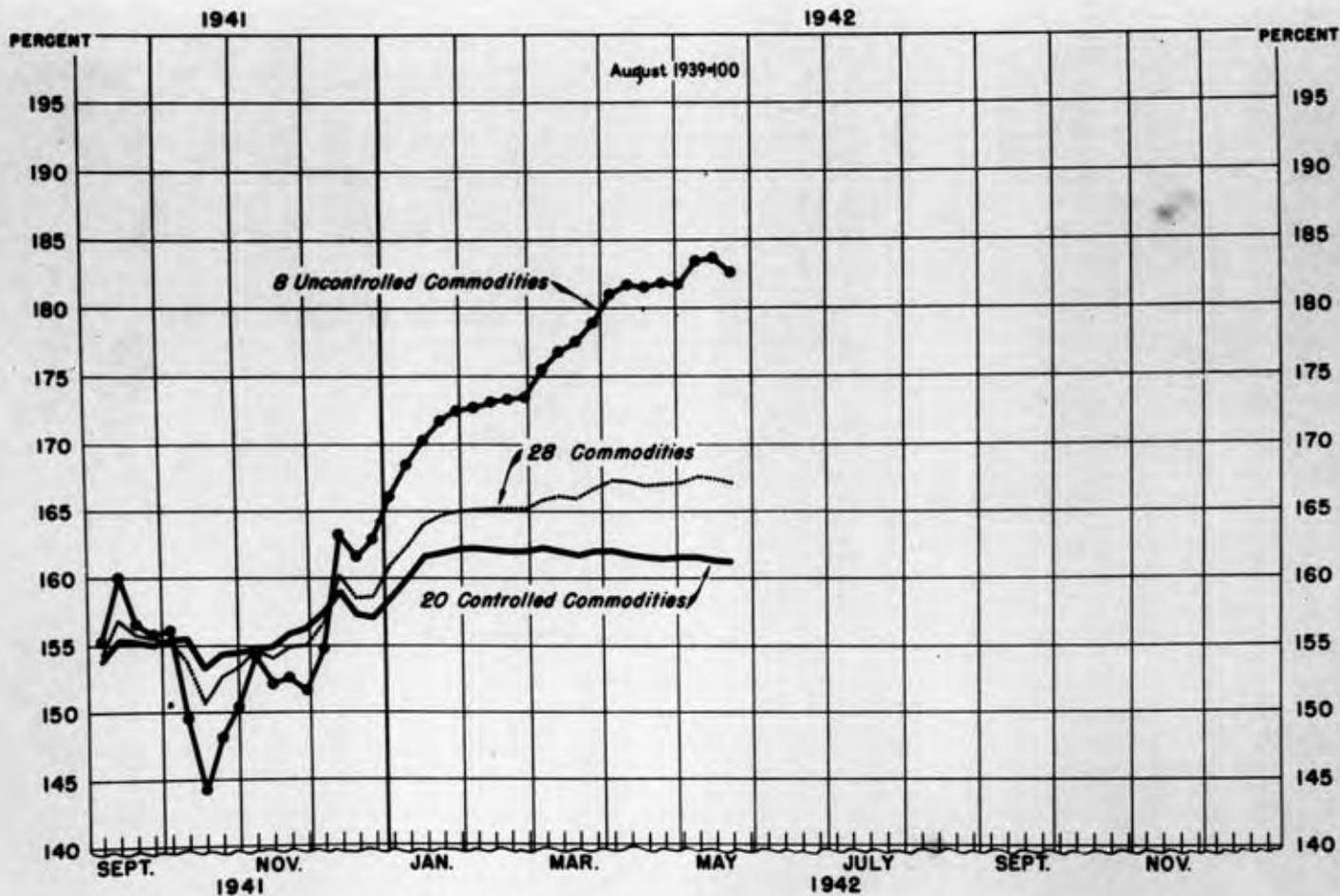
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382

Chart 5

WHOLESALE PRICES OF 28 BASIC COMMODITIES

Controlled and Uncontrolled Components



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

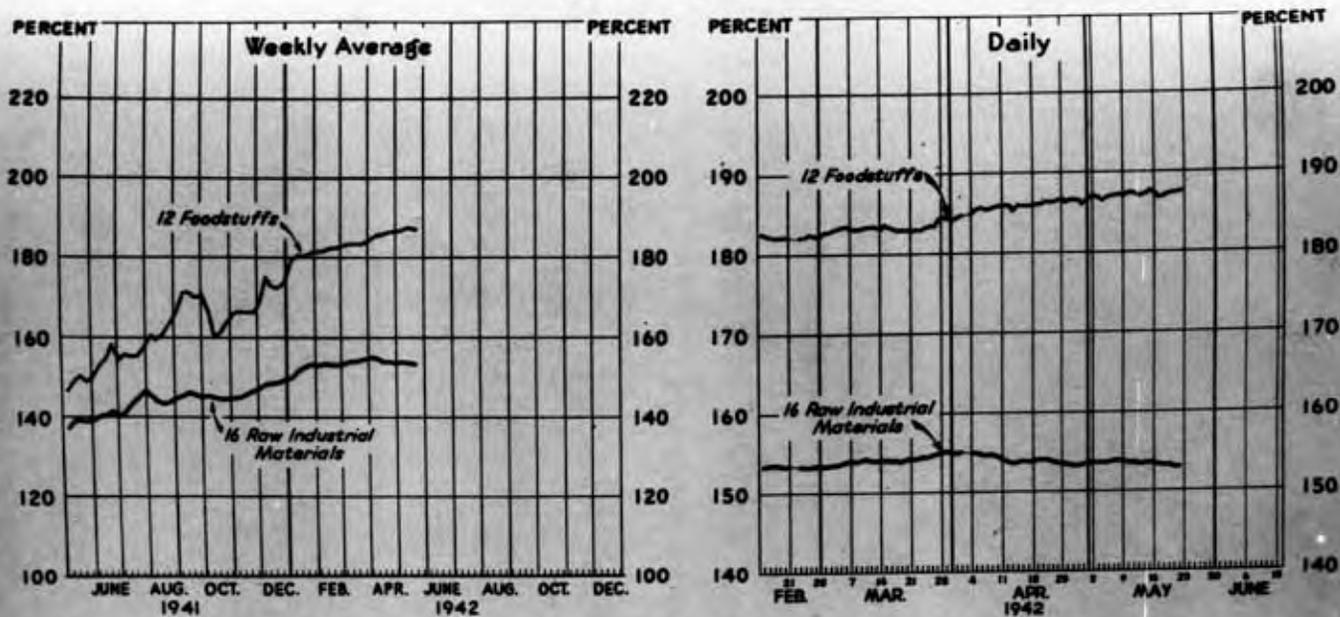
P-242

383

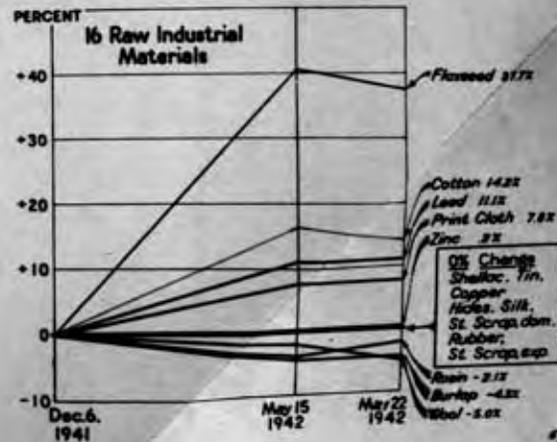
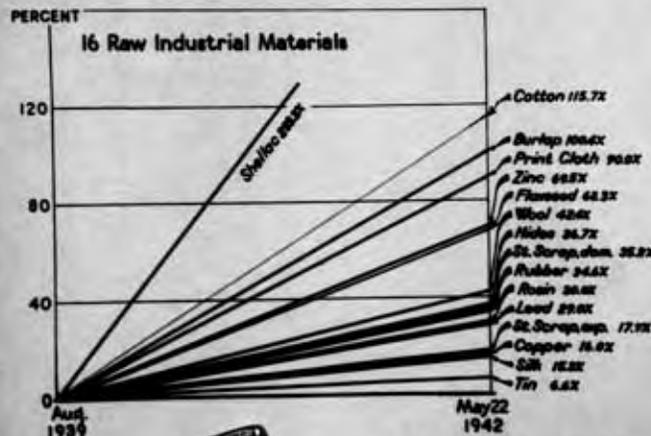
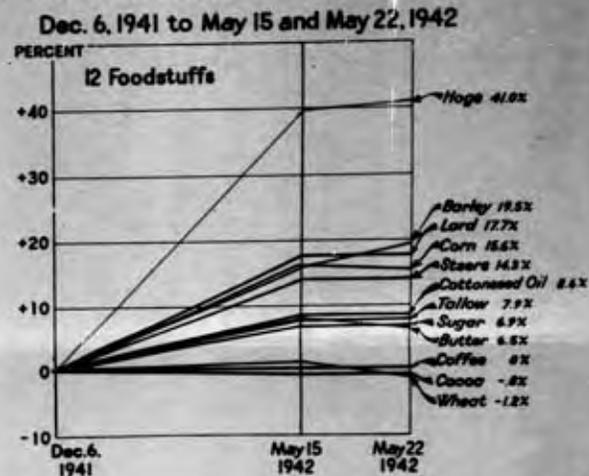
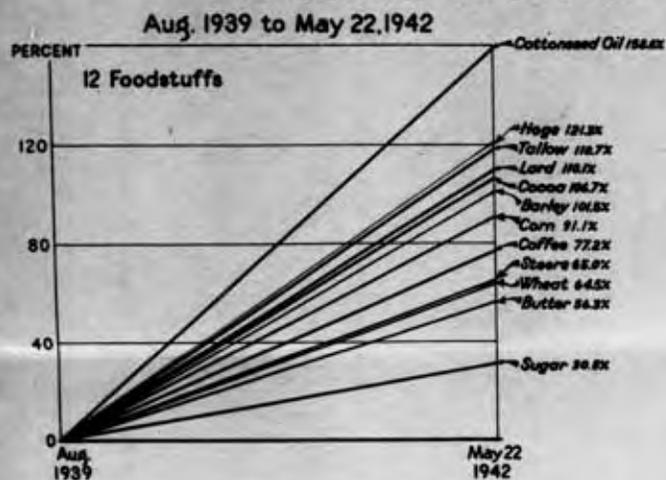
Chart 6

MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100



PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES



*Black lines indicate commodities under price ceilings

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 25, 1942

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Shipment of Planes to British Forces

1. In the week ending May 19, 1942, a total of 66 planes of all types (59 combat planes) were shipped to British forces.
2. The first shipment of the Northrop Vengeance, a new pursuit plane, occurred this week with the departure of five for Australia. The Vengeance is one of our most modern fighters; the prototype first flew in 1941. This is to be compared with the P-40 whose prototype first flew in 1937.

Table A - Shipments by Area

	Week Ending <u>May 19, 1942</u>	Total shipped in 1942 to date	Total shipped since <u>Jan. 1, 1941</u>
<u>To the United Kingdom</u>			
Light and medium bombers	3	261	1,422
Heavy bombers	0	50	154
Naval patrol bombers	0	8	110
Pursuit	0	686	997
Army Cooperation	0	71	102
Trainers	0	0	24
Total to the United Kingdom	3	1,076	2,809
<u>To the Middle East</u>			
Light and medium bombers	0	192	522
Heavy bombers	0	0	5
Pursuit	31	236	1,084
Army Cooperation	0	12	12
Trainers	0	8	150
Total to the Middle East	31	448	1,773
<u>To the Canadian Forces</u>			
Light and medium bombers	2	37	205
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	7	330	1,571
Total to the Canadian Forces	9	421	1,880
<u>To the British Pacific Forces</u>			
Light and medium bombers	12	133	228
Naval patrol bombers	0	0	27
Pursuit	11	186	354
Trainers	0	0	105
Total to Pacific Forces	23	319	714
<u>To the British Indian Forces</u>			
Pursuit	0	40	40
Total to Indian Forces	0	40	40
<u>Totals</u>			
Light and medium bombers	17	623	2,377
Heavy bombers	0	51	160
Naval patrol bombers	0	31	168
Pursuit	42	1,178	2,547
Army Cooperation	0	83	114
Trainers	7	338	1,850
Grand Total	66	2,304	7,216

Table B - Shipments by Types

387

	Week Ending May 19, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
Bell Airacobra	0	314	468
Boeing B-17	0	12	32
Boston III	0	10	34
Brewster Buffalo	0	0	168
Cessna Crane I-A (AT-17)	7	52	52
T-50	0	86	700
Consolidated Catalina	0	31	168
Liberator	0	39	128
Curtiss Kittyhawk	37	451	833
Tomahawk	0	0	544
Douglas Boston I, II and III	0	0	492
Fairchild 24 R-9	0	73	95
Glenn Martin Baltimore	0	195	263
Maryland	0	0	150
Grumman Martlet II	0	46	87
Lockheed Hudson	17	294	1,264
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	0	106	106
North American B-25B	0	6	6
Harvard II	0	52	949
Mustang	0	359	439
Northrop Vengeance	5	5	5
Wittcairn Autogiro	0	0	5
Wearman PT-27	0	148	149
Wright-Sikorsky Chesapeake	0	0	50
Wultee Stinson O-49	0	10	14
Grand Total - All Types	66	2,304	7,216

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Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Totals</u>
Weekly average of shipments in 1941	36	2	3	28	1	30	100
January 6, 1942	24	0	5	30	4	9	72
January 13, 1942	3	0	2	58	0	42	105
January 20, 1942	8	0	0	14	0	60	82
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	33	0	3	59	0	4	99
February 17, 1942	12	0	2	41	7	0	62
February 24, 1942	33	0	2	86	7	1	129
March 3, 1942	26	0	1	80	6	0	113
March 10, 1942	29	2	0	78	1	0	110
March 17, 1942	34	1	0	94	8	0	137
March 24, 1942	94	9	12	79	0	84	278
March 31, 1942	49	1	0	58	4	10	122
April 7, 1942	69	2	0	8	4	5	88
April 14, 1942	55	7	0	86	6	29	183
April 21, 1942	55	11	0	43	15	34	158
April 28, 1942	35	10	0	39	0	26	110
May 5, 1942	14	2	0	98	0	4	118
May 12, 1942	22	3	0	75	12	6	118
May 19, 1942	17	0	0	42	0	7	66
Total shipments since January 1, 1941 to date *	2,377	160	168	2,547	114	1,850	7,216

* Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

MAY 25 1942

My dear Mr. Ambassador:

I wish to refer to the agreement dated January 3, 1942, relative to the purchase of 602,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics, against which an advance of \$20,000,000 was made on January 3, 1942.

I take pleasure in enclosing for your information two copies of the assay report of the United States Assay Office at New York giving an analysis of the gold which was consigned to the Federal Reserve Bank of New York and was deposited by your Government on May 9, 1942, for the account of the Secretary of the Treasury.

You will observe from the enclosed report that the shipment, after melting and upon assay, was determined to contain 191,738.600 fine troy ounces of gold and to have a value of \$6,711,551. After the deduction of the amount of \$16,970.78 representing the melting charge of \$191.98 plus the 1/4% handling charge of \$16,778.80, the net value of the gold was \$6,694,580.22. This amount of gold has been applied by the Treasury against the amount of gold agreed to be purchased by the Secretary of the Treasury under the agreement of January 3, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency
Nathan Litvinoff,
Ambassador of the Union of Soviet
Socialist Republics.

Enclosures.

FD:WVJ-22-42

C
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P
Y

TREASURY DEPARTMENT

United States Mint Service

New York, N. Y.

Office of
THE SUPERINTENDENT
U. S. Assay Office
32 Old Slip

May 21, 1942

Secretary of the Treasury
Treasury Department
Washington, D. C.Attention: Mr. Frank Dietrich

Honorable Sir:

We herewith enclose ten copies of form 42A, as instructed in your letter of May 8.

This covers the deposit made at this office on May 13 for credit of the Secretary of the Treasury, Special Account.

Respectfully,

/s/ E. R. Lynch

Acting Superintendent

ERL:ML
Ence.Copy:imc
5/25/42

7350

R

NOTE.—This Report is for the information of the depositor, and is of no other value.

MEMO. REPORT ON ^{GOLD}_{SILVER} BULLION deposited at the Assay Office, of the United States at New York
MAY 13 1942, 193, by FEDERAL RESERVE BANK OF NEW YORK for Credit of the Secy. of the Treasury
by order Gov. U.S.R., A.S. Good

DESCRIPTION OF BULLION.	WEIGHT.				GOLD.			SILVER.			CHARGES.		NET VALUE.		
	BEFORE MELTING.		AFTER MELTING.		FINENESS.	VALUE.		FINENESS.	VALUE AT		Dollars.	Cts.	Dollars.	Cts.	
	Ounces.	Dec.	Ounces.	Dec.		Dollars.	Cts.		1,000ths.	Dollars.					Cts.
RUSSIA															
Refd Bars			8 584 08		999.8										
			8 569 99		999.8										
			8 684 18		999.8										
			8 689 41		999.8										
			8 611 73		999.8										
			8 287 21		999.8										
			8 483 05		999.8										
			8 593 87		999.8										
			8 467 45		999.8										
			8 440 94		999.8										
			8 615 63		999.7										
			8 338 53		999.8										
			8 182 69		999.7										
do			8 122 01		999.7										

(cont)
 The net value of the above deposit is payable as follows:
 IN GOLD BARS, . \$
 IN SILVER BARS, . \$
 IN CASH, . . . \$
 BY CHECK, . . . \$

Geossicks
 For the Superintendent.

The Silver, ozs. _____ fine _____

WCMS

May 25, 1942 - 3:35 p.m.

The Supreme Court refused to review a \$228,294,283 New York State court judgement against the Banque of France in favor of assignees of the Banque Nationale de Belgique.

The suit involves the value of gold deposited by the Belgian bank before the war with the French bank in Paris for safekeeping. The French bank conceded, in its brief to the High Court, that "for reasons which it is not here important to discuss" the gold was not redelivered to the Belgian bank after Germany overran France.

Assignees of the Belgian bank, Daniel de Gorter and Henri de Wild, New York, brought suit against a \$749,000,000 fund on deposit in New York to the French bank's credit. The French bank contended that New York Courts had no authority to try cases involving foreign corporations neither of which conduct business in the State but their plea was rejected.

Copy:imc
5/26/42

TELEGRAM SENT

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

May 25, 1949

2 p.m.

AMERICAN CONSULATE GENERAL,
CAPETOWN, (SOUTH AFRICA).

98

FROM TREASURY

QUOTE. Your 67, May 13, 10 a.m.

Please cable rate at which South African Reserve
Bank negotiates dollar telegraphic transfers, checks
drawn on Treasurer of United States, and United States
currency exchanged for official purposes. END QUOTE

WULL
(FL)

FD:FL:MLB

May 21, 1948

Mr. Lacey

Mr. D. V. Hall

Will you please send the following cable to the American Consulate General,
Cape Town, South Africa.

"From Treasury.

Trans No. 67, May 13, 10 a.m. Please cable rate at which South
African Reserve Bank negotiates dollar telegraphic transfers, checks
drawn on Treasurer of United States, and United States currency ex-
changed for official purposes".

100-3-22-48

PLAIN

Ankara

Dated May 25, 1948

Rec'd 10:30 p.m.

Secretary of State,
Washington.

478, Twenty-fifth

The semi-official ULUS published this morning a communique from the Ministry of Commerce announcing the termination commencing today of the payment of premiums on free exchange sold in connection with the purchase of Turkish products for export. Provision is made for payment of the usual premiums in certain specified cases such as (gms) where an export license has been granted prior to May 25th and (tug) where Turkish products have been purchased prior to May 25th and letters of credit opened provided the transaction is recorded in the Compensation Company within 48 hours and the export license obtained within a week. The Compensation Company is to continue to collect premiums in connection with the purchase of free exchange

-2- 478, Twenty-fifth from Ankara
exchange until a sufficient amount has been collected
to liquidate the arrears in respect to exchange
premiums which have been granted. It is stated that
the present decision has been taken in order "to
conform to the present economic conditions resulting
from the world war."

STEINHARDT

JRL

(GOPY)

398

COPY NO. 13

BRITISH MOST SECRET
(U.S. SECRET)

OPTEL No. 171

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

1. MILITARY

LIBYA. 23rd. Extensive enemy movement behind his front with obvious and determined intention to prevent us observing his movements.

2. AIR OPERATIONS

WESTERN FRONT. 24th. A sweep over Northern FRANCE by eight Squadrons of Spitfires resulted in two enemy fighters destroyed and nine damaged. Near our coasts two enemy aircraft were damaged for the loss of one Spitfire, pilot safe.

24th/25th. About 55 enemy aircraft operated between PORTLAND and the ISLE OF WIGHT. One Heinkel bomber was destroyed.

MALTA. Between 1700/23 and 1345/24 six enemy bombers and forty fighters flew over the Island. Three enemy aircraft were destroyed and one damaged.

3. HOME SECURITY

24th/25th. Bombs dropped in the BOURNEMOUTH and ISLE OF WIGHT areas caused damage to house property and a few casualties.

4. NORWAY

The construction of five submarine pens at TRONDHJEM begun a year ago is now taking shape. Two are probably ready for roofing. They adjoin a basin which has a floating dock and is constantly used by submarines.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

399

DATE May 25, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck

Subject: Summary of Intelligence Reports

Use of American Planes -- Libya

On the night of May 21/22, 35 R.A.F. bombers and 50 Kittyhawk fighters attacked Axis camps and the landing grounds at Martuba. Some of the Kittyhawk fighters carried bombs and made successful attacks. (The Kittyhawk version of the P-40 is evidently much more versatile than the Tomahawk version. The Kittyhawk not only can carry out long-range missions, but, according to this report, is also useful as a bomber.)

(U.K. Operations Report, May 24, 1942)

German Navy

The Germans are constructing submarine shelters in Bordeaux. These are designed to accommodate 15 submarines, but are unlikely to be finished for several months. The German Todt Organization is doing the work, although Bordeaux is only used by Italian submarines. The shelters are similar to those at Brest, St. Nazaire and La Pallice (that is, huge, concrete, hangar-like, bomb-proof shelters.)

(U.K. Operations Report, May 22, 1942)

German Home Propaganda

The primary propaganda theme is that the Homeland must be worthy of the front by cheerfully producing weapons and bearing burdens. The magnificent German women can work harder and the farmers can deliver more.

There is a significant ban on forecasts of a general offensive, or of expected results this summer.

One interesting development is that while "democracy" is still used as a term of abuse, it is beginning to be used in its proper sense. The line recently adopted by Goebbels is that Hitler has created the first and only democracy in the world. (This is an interesting development. The popular movements in Europe in the last hundred years have been those of democracy and socialism. In the period prior to the attack on Russia, the Nazis could pose as attackers of plutocratic democracy, but as the representatives of socialism. With the war being waged against both Russia and the Western Powers, the Germans have been placed in the unenviable European propagandist position of attacking both democracy and socialism.)

(C. O. I., May 25, 1942)

Germany

The British Political Warfare Executive points out that Goering's speech of May 20 did not make any attacks on Britain. It is believed that this may be important in connection with an attempt at a negotiated peace.

(U.K. Political Warfare Executive; Proposed German Directive, May 31 - June 6, 1942)